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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the Transition Period from to

Commission File Number 001-16707

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

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

751 Broad Street
Newark, New Jersey 07102
(973) 802-6000
(Address and Telephone Number of Registrant's Principal Executive Offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

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

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management’s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variati words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing projected results of acquisitions; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; and (26) Prudential Financial, Inc.’s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2014 for discussion of certain risks relating to our businesses and investment in our securities.

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

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Operations
Three and Six Months Ended June 30, 2015 and 2014 (in millions, except per share amounts)

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

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

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(1) For the three and six months ended June 30, 2015, represents consolidated earnings per share of Common Stock. For the three and six months ended June 30, 2014, represents earnings of the Company's former Financial Services Businesses per share of Common Stock. See Note 8 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Cash Flows
Six Months Ended June 30, 2015 and 2014 (in millions)

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

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

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NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	$109	$94
Significant Pension Risk Transfer transactions:		
Assets acquired, excluding cash and cash equivalents acquired	$1,553	$0
Liabilities assumed	1,919	0
Net cash received	$366	$0
Acquisition of Gibraltar BSN Life Berhad:		
Assets acquired, excluding cash and cash equivalents acquired	$0	$656
Liabilities assumed	0	586
Noncontrolling Interest assumed	0	47
Net cash paid on acquisition	$0	$23

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

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

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

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

Basis of Presentation

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

The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company's consolidated variable interest entities. The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

Use of Estimates

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

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

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

This section supplements, and should be read in conjunction with, Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Earnings Per Share

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

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

Adoption of New Accounting Pronouncements

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

In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in-substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company’s consolidated financial position, results of operations or financial statement disclosures.

In April 2014, the FASB issued updated guidance that changes the criteria for reporting discontinued operations and introduces new disclosures. The new guidance became effective for new disposals and new classifications of disposal groups as held for sale that occur within annual periods that began on or after December 15, 2014, and interim periods within those annual periods. Adoption of the guidance did not have a significant effect on the Company’s consolidated financial position, results of operations or financial statement disclosures.

In June 2014, the FASB issued updated guidance that requires repurchase-to-maturity transactions to be accounted for as secured borrowings and eliminates existing guidance for repurchase financings. The guidance also requires new disclosures for certain transactions accounted for as secured borrowings and for transfers accounted for as sales when the transferor also retains

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substantially all of the exposure to the economic return on the transferred financial assets. Accounting changes and new disclosures for transfers accounted for as sales under the new guidance were effective for the first interim or annual period beginning after December 15, 2014 and did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures. Disclosures for certain transactions accounted for as secured borrowings were effective for interim periods beginning after March 15, 2015 and are included in Note 4.

In August 2014, the FASB issued guidance requiring that mortgage loans be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

Future Adoption of New Accounting Pronouncements

In May 2014, the FASB issued updated guidance on accounting for revenue recognition. The guidance is based on the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. Revenue recognition for insurance contracts is explicitly scoped out of the guidance. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017, and must be applied using one of two retrospective application methods. Early adoption is not permitted. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In August 2014, the FASB issued updated guidance for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity. Under the guidance, an entity within scope is permitted to measure both the financial assets and financial liabilities of a consolidated collateralized financing entity based on either the fair value of the financial assets or the financial liabilities, whichever is more observable. If elected, the guidance will eliminate the measurement difference that exists when both are measured at fair value. The new guidance is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted, and can be elected for modified retrospective or full retrospective adoption. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In February 2015, the FASB issued updated guidance that changes the rules regarding consolidation. The pronouncement eliminates specialized guidance for limited partnerships and similar legal entities, and removes the indefinite deferral for certain investment funds. The new guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In April 2015, the FASB issued guidance that simplifies presentation of debt issuance costs. The pronouncement requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for periods beginning after December 15, 2015, with early adoption permitted, and it must be applied retrospectively. The Company does not expect the impact of the guidance to have a significant effect on the Company's consolidated financial position and financial statement disclosures.

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

3. ACQUISITIONS

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

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

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

Total fixed maturities, held-to-maturity(5)	$2,396	$280	$2	$2,674

(1) Excludes notes with amortized cost of $693 million (fair value, $695 million) which have been offset with the associated payables under a netting agreement.

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

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

(4) Represents the amount of other-than-temporary impairment losses in Accumulated Other Comprehensive Income (“AOCI”), which were not included in earnings. Amount excludes $944 million of net unrealized gains on impaired available-for-sale securities and less than $1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of $3,850 million (fair value, $4,069 million) which have been offset with the associated payables under a netting agreement.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

(1) Excludes notes with amortized cost of $385 million (fair value, $385 million) which have been offset with the associated payables under a netting agreement.
(2) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(4) Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings. Amount excludes $954 million of net unrealized gains on impaired available-for-sale securities and $1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(5) Excludes notes with amortized cost of $3,588 million (fair value, $3,953 million) which have been offset with the associated payables under a netting agreement.

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

	Available-for-Sale	Held-to-Maturity

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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(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, 2014, a portion of certain other-than-temporary impairment (“OTTI”) losses on fixed maturity securities is recognized in “Other comprehensive income (loss)” (“OCI”). For these securities, the net amount recognized in earnings (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts:

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

Trading Account Assets Supporting Insurance Liabilities

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(2) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

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

Other Trading Account Assets

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

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

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

Concentrations of Financial Instruments

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

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

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

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

Commercial Mortgage and Other Loans

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

(1) Includes loans held at fair value.

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

	June 30, 2015					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Individually evaluated for impairment	$3	$0	$0	$0	$ 0	$3
Collectively evaluated for impairment	93	1	3	0	8	105
Loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$96	$1	$3	$0	$ 8	$108
Recorded Investment(1):						
Gross of reserves: individually evaluated for impairment	$254	$4	$0	$1	$ 2	$261
Gross of reserves: collectively evaluated for impairment	44,139	2,600	327	314	1,036	48,416
Gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$44,393	$2,604	$327	$315	$ 1,038	$48,677

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Prior period’s amounts are presented on a basis consistent with current period presentation.
(2) Recorded investment reflects the balance sheet carrying value gross of related allowance.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015				
	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	$0	$0	$0	$0	$0
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total with no related allowance	$0	$1	$0	$0	$0
With an allowance recorded:					
Commercial mortgage loans	$55	$55	$3	$79	$1
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$55	$55	$3	$79	$1
Total:					
Commercial mortgage loans	$55	$55	$3	$79	$1
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total	$55	$56	$3	$79	$1

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.
(2) Average recorded investment represents the average of the beginning-of-period and end-of-period balances.
(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 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	$8	$8	$0	$16	$1
Agricultural property loans	4	4	0	4	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total with no related allowance	$12	$13	$0	$20	$1
With an allowance recorded:					
Commercial mortgage loans	$76	$76	$8	$82	$6
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	3	1
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$76	$76	$8	$85	$7
Total:					
Commercial mortgage loans	$84	$84	$8	$98	$7
Agricultural property loans	4	4	0	4	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	3	1
Uncollateralized loans	0	1	0	0	0
Total	$88	$89	$8	$105	$8

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(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.
(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.
(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.

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

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

Commercial mortgage loans

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Agricultural property loans

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

Total commercial mortgage and agricultural property loans

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

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

Commercial mortgage loans

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

Agricultural property loans

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Total commercial mortgage and agricultural property loans

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

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

	June 30, 2015							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$44,344	$49	$0	$0	$0	$49	$44,393	$103
Agricultural property loans	2,603	0	0	0	1	1	2,604	1
Residential property loans	315	4	1	0	7	12	327	7
Other collateralized loans	314	0	0	0	1	1	315	1
Uncollateralized loans	1,038	0	0	0	0	0	1,038	0
Total	$48,614	$53	$1	$0	$9	$63	$48,677	$112

	December 31, 2014							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$42,239	$62	$0	$0	$2	$64	$42,303	$101
Agricultural property loans	2,443	0	1	0	1	2	2,445	1
Residential property loans	375	7	2	0	8	17	392	8
Other collateralized loans	319	0	0	0	0	0	319	0
Uncollateralized loans	1,092	0	0	0	0	0	1,092	0
Total	$46,468	$69	$3	$0	$11	$83	$46,551	$110

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

For both the three and six months ended June 30, 2015, there were $53 million of commercial mortgage and other loans acquired, other than those through direct origination and there were $18 million of commercial mortgage and other loans sold, other than those classified as held-for-sale. For both the three and six months ended June 30, 2014, there were no commercial mortgage and other loans acquired, other than those through direct origination, nor were there any commercial mortgage and other loans sold, other than those classified as held-for-sale.

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

As of June 30, 2015 and December 31, 2014, the Company did not have any foreclosed residential real estate property.

Net Investment Income

Net investment income for the three and six months ended June 30, 2015 and 2014, was from the following sources:

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

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

The Company had $238 million and $218 million of investments in low-income housing tax credit limited partnerships and has committed to fund $52 million and $67 million as of June 30, 2015 and December 31, 2014, respectively.
Generally, the Company uses the equity method of accounting for these investments. The Company recognized $1 million and $6 million of equity method losses and utilized $0 million and $8 million of tax credits associated with these investments for the three months ended June 30, 2015 and 2014, respectively. The company recognized $3 million and $8 million of equity method losses and utilized $9 million and $15 million of tax credits associated with these investments for the six months ended June 30, 2015 and 2014, respectively. There were no impairment losses from forfeiture or ineligibility of tax credits.
Realized Investment Gains (Losses), Net

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

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

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

Net Unrealized Gains (Losses) on Investments by Asset Class

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

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

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(1) See Note 14 for more information on cash flow hedges.
(2) As of June 30, 2015, there were $0 million of net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

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

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

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

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

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

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

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

December 31, 2014, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at June 30, 2015 or December 31, 2014. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to foreign currency exchange rate movements and general credit spread widening. At June 30, 2015, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before the anticipated recovery of its remaining amortized cost basis.

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

5. VARIABLE INTEREST ENTITIES

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

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

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

Consolidated Variable Interest Entities

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

Additionally, the Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but for which it is not the investment manager. These include structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company's involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial support or other support that was not contractually required to these VIEs.

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

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

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

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

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

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. These VIEs consist primarily of investment funds for which the Company utilizes the Investment Company Model to assess consolidation. Accordingly, the Company has determined that it is not the primary beneficiary of these entities because it does not stand to absorb a majority of the VIE's expected losses or to receive a majority of the VIE's expected residual returns. For all other investment structures, the Company has determined that it is not the primary beneficiary as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company’s maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was $174 million and $137 million at June 30, 2015 and December 31, 2014, respectively. These investments are reflected in “Fixed maturities, available-for-sale,” “Other trading account assets, at fair value” and “Other long-term investments.” The fair value of assets held within these unconsolidated VIEs was $5,982 million and $6,973 million as of June 30, 2015 and December 31, 2014, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company’s Unaudited Interim Consolidated Statements of Financial Position.

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

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

6. CLOSED BLOCK

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

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

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

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

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

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

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

Information regarding the policyholder dividend obligation is as follows:

	Six Months Ended June 30, 2015
	(in millions)

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

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

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

7. EQUITY

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Class B Stock

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

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

Accumulated Other Comprehensive Income (Loss)

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

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

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			

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

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

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)

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

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

Net Unrealized Investment Gains (Losses)

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	Net Unrealized Gains (Losses) On Investments	Deferred Policy Acquisition Costs, 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, 2014	$349	$ (6)	$ 3	$ (32)	$ (110)	$ 204
Net investment gains (losses) on investments arising during the period	24				(9)	15
Reclassification adjustment for (gains) losses included in net income	(3)				1	(2)
Reclassification adjustment for OTTI losses excluded from net income(1)	(15)				5	(10)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		6			(2)	4
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances			8		(3)	5
Impact of net unrealized investment (gains) losses on policyholders' dividends				32	(11)	21
Balance, June 30, 2015	$355	$ 0	$ 11	$ 0	$ (129)	$ 237

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

All Other Net Unrealized Investment Gains and Losses in AOCI

Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Cost, Deferred	Future Policy Benefits and	Policyholders' Dividends	Deferred Income Tax (Liability)	Accumulated Other Comprehensive

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

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

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

8. EARNINGS PER SHARE

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

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

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

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

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

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

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

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

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

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

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

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

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

9. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015	December 31, 2014
	(in millions)	
Commercial paper:		
Prudential Financial	$141	$97
Prudential Funding, LLC	731	386
Subtotal commercial paper	872	483
Current portion of long-term debt(1)	2,749	3,356
Total short-term debt(2)	$3,621	$3,839

Supplemental short-term debt information: