PRUDENTIAL FINANCIAL INC
Form 10-Q
November 07, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

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

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

As of October 31, 2013, 461 million shares of the registrant s Common Stock (par value $0.01) were outstanding. In addition, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, includes, plans, assumes, estimates, projects, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement, with regard to variable annuity or other product guarantees; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, longevity, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for retirement expense; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing projected results of acquisitions; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; (26) Prudential Financial, Inc. s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (27) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors herein and in the Annual Report on Form 10-K for the year ended December 31, 2012 for discussion of certain risks relating to our businesses and investment in our securities.

Table of Contents

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

September 30, 2013 and December 31, 2012 (in millions, except share amounts)

	September 30, 2013	December 31, 2012
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2013-$272,399; 2012- $277,654)(1)	$ 288,766	$ 301,336
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2013-$3,872; 2012- $4,511)(1)	3,629	4,268
Trading account assets supporting insurance liabilities, at fair value(1)	21,131	20,590
Other trading account assets, at fair value(1)	6,403	6,328
Equity securities, available-for-sale, at fair value (cost: 2013-$6,684; 2012-$6,759)	8,984	8,277
Commercial mortgage and other loans (includes $117 and $162 measured at fair value under the fair value option at September 30, 2013 and December 31, 2012, respectively)(1)	39,497	36,733
Policy loans	11,863	11,575
Other long-term investments (includes $508 and $465 measured at fair value under the fair value option at September 30, 2013 and December 31, 2012, respectively)(1)	9,869	10,028
Short-term investments	8,497	6,447
Total investments	398,639	405,582
Cash and cash equivalents(1)	12,650	18,100
Accrued investment income(1)	3,157	3,127
Deferred policy acquisition costs	16,228	14,100
Value of business acquired	3,837	3,248
Other assets(1)	13,524	11,887
Separate account assets	275,091	253,254
TOTAL ASSETS	$ 723,126	$ 709,298
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 209,177	$ 216,050
Policyholders account balances(1)	137,573	134,413
Policyholders dividends	5,607	7,507
Securities sold under agreements to repurchase	7,158	5,818
Cash collateral for loaned securities	5,955	3,941
Income taxes	4,943	8,551
Short-term debt	3,118	2,484

Long-term debt	23,642	24,729
Other liabilities(1)	13,323	11,683
Notes issued by consolidated variable interest entities (includes $2,330 and $1,406 measured at fair value under the fair value option at September 30, 2013 and December 31, 2012, respectively)(1)	2,423	1,577
Separate account liabilities	275,091	253,254
Total liabilities	688,010	670,007
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,307 and 660,111,307 shares issued at September 30, 2013 and December 31, 2012, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively)	0	0
Additional paid-in capital	24,413	24,380
Common Stock held in treasury, at cost (198,224,292 and 197,077,940 shares at September 30, 2013 and December 31, 2012, respectively)	(12,295)	(12,163)
Accumulated other comprehensive income (loss)	6,899	10,214
Retained earnings	15,335	16,138
Total Prudential Financial, Inc. equity	34,358	38,575
Noncontrolling interests	758	716
Total equity	35,116	39,291
TOTAL LIABILITIES AND EQUITY	$ 723,126	$ 709,298

(1) See Note 5 for details of balances associated with variable interest entities.

See Notes to Unaudited Interim Consolidated Financial Statements

1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2013 and 2012 (in millions, except per share amounts)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
REVENUES				
Premiums	$ 6,141	$ 9,027	$ 20,147	$ 23,356
Policy charges and fee income	1,257	1,224	3,988	3,335
Net investment income	3,650	3,433	10,999	10,111
Asset management fees and other income	2,405	905	295	3,167
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(359)	(426)	(847)	(1,345)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	316	331	701	1,045
Other realized investment gains (losses), net	(2,067)	(1,350)	(3,711)	(766)
Total realized investment gains (losses), net	(2,110)	(1,445)	(3,857)	(1,066)
Total revenues	11,343	13,144	31,572	38,903
BENEFITS AND EXPENSES				
Policyholders benefits	6,237	9,576	20,480	23,446
Interest credited to policyholders account balances	759	1,057	2,203	3,270
Dividends to policyholders	582	517	1,587	1,563
Amortization of deferred policy acquisition costs	(452)	182	(14)	1,194
General and administrative expenses	2,658	2,742	8,068	8,154
Total benefits and expenses	9,784	14,074	32,324	37,627
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,559	(930)	(752)	1,276
Income tax expense (benefit)	509	(328)	(595)	594
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,050	(602)	(157)	682
Equity in earnings of operating joint ventures, net of taxes	3	45	57	58
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,053	(557)	(100)	740
Income (loss) from discontinued operations, net of taxes	8	(2)	11	12
NET INCOME (LOSS)	1,061	(559)	(89)	752
Less: Income (loss) attributable to noncontrolling interests	19	25	96	51
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ 1,042	$ (584)	$ (185)	$ 701
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 2.09	$ (1.34)	$ (0.59)	$ 1.38
Income (loss) from discontinued operations, net of taxes	0.02	0.00	0.02	0.03

Net income (loss) attributable to Prudential Financial, Inc.	$ 2.11	$ (1.34)	$ (0.57)	$ 1.41
Diluted earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 2.06	$ (1.34)	$ (0.59)	$ 1.37
Income (loss) from discontinued operations, net of taxes	0.01	0.00	0.02	0.03
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.07	$ (1.34)	$ (0.57)	$ 1.40
Dividends declared per share of Common Stock	$ 0.40		$ 1.20	
Closed Block Business				
Basic and Diluted earnings per share-Class B Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 29.50	$ 20.00	$ 36.00	$ 20.50
Income (loss) from discontinued operations, net of taxes	0.00	(0.50)	0.00	(1.00)
Net income (loss) attributable to Prudential Financial, Inc.	$ 29.50	$ 19.50	$ 36.00	$ 19.50
Dividends declared per share of Class B Stock	$ 2.41		$ 7.22	

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2013 and 2012 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
NET INCOME (LOSS)	$ 1,061	$ (559)	$ (89)	$ 752
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments:				
Foreign currency translation adjustments for the period	224	139	(1,182)	236
Total	224	139	(1,182)	236
Net unrealized investment gains (losses):				
Unrealized investment gains (losses) for the period	(2,126)	1,740	(2,754)	5,909
Reclassification adjustment for (gains) losses included in net income (loss)	(541)	19	(1,065)	168
Total	(2,667)	1,759	(3,819)	6,077
Defined benefit pension and postretirement unrecognized net periodic benefit:				
Impact of foreign currency changes and other	(4)	5	26	19
Amortization included in net income (loss)	31	24	94	74
Total	27	29	120	93
Other comprehensive income (loss), before tax	(2,416)	1,927	(4,881)	6,406
Less: Income tax expense (benefit) related to:				
Foreign currency translation adjustments	73	31	(328)	90
Net unrealized investment gains (losses)	(917)	557	(1,259)	2,077
Defined benefit pension and postretirement unrecognized net periodic benefit	10	10	43	25
Total	(834)	598	(1,544)	2,192
Other comprehensive income (loss), net of taxes	(1,582)	1,329	(3,337)	4,214
Comprehensive income (loss)	(521)	770	(3,426)	4,966
Less: Comprehensive income (loss) attributable to noncontrolling interests	(13)	4	74	63
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ (508)	$ 766	$ (3,500)	$ 4,903

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

Nine Months Ended September 30, 2013 and 2012 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2012	$ 6	$ 24,380	$ 16,138	$ (12,163)	$ 10,214	$ 38,575	$ 716	$ 39,291
Common Stock acquired				(500)		(500)		(500)
Contributions from noncontrolling interests						0	1	1
Distributions to noncontrolling interests						0	(78)	(78)
Consolidations/deconsolidations of noncontrolling interests						0	45	45
Stock-based compensation programs		33	(41)	368		360		360
Dividends declared on Common Stock			(563)			(563)		(563)
Dividends declared on Class B Stock			(14)			(14)		(14)
Comprehensive income:								
Net income			(185)			(185)	96	(89)
Other comprehensive income, net of tax					(3,315)	(3,315)	(22)	(3,337)
Total comprehensive income (loss)						(3,500)	74	(3,426)
Balance, September 30, 2013	$ 6	$ 24,413	$ 15,335	$ (12,295)	$ 6,899	$ 34,358	$ 758	$ 35,116

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2011	$ 6	$ 24,293	$ 16,629	$ (11,920)	$ 5,245	$ 34,253	$ 588	$ 34,841
Common Stock acquired				(650)		(650)		(650)
Contributions from noncontrolling interests							2	2
Distributions to noncontrolling interests							(78)	(78)
Consolidations/deconsolidations of noncontrolling interests							116	116
Stock-based compensation programs		55	(173)	345		227		227
Dividends declared on Common Stock								0
Dividends declared on Class B Stock								0
Comprehensive income:								
Net income			701			701	51	752
Other comprehensive income, net of tax					4,202	4,202	12	4,214
Total comprehensive income						4,903	63	4,966
Balance, September 30, 2012	$ 6	$ 24,348	$ 17,157	$ (12,225)	$ 9,447	$ 38,733	$ 691	$ 39,424

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

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2013 and 2012 (in millions)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (89)	$ 752
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	3,857	1,066
Policy charges and fee income	(1,192)	(1,080)
Interest credited to policyholders account balances	2,203	3,269
Depreciation and amortization	338	230
Gains on trading account assets supporting insurance liabilities, net	275	(503)
Change in:		
Deferred policy acquisition costs	(2,230)	(1,438)
Future policy benefits and other insurance liabilities	6,211	11,336
Other trading account assets	(34)	4
Income taxes	(1,962)	879
Other, net	(1,894)	(2,766)
Cash flows from operating activities	5,483	11,749
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	40,389	28,302
Fixed maturities, held-to-maturity	397	377
Trading account assets supporting insurance liabilities and other trading account assets	16,339	10,230
Equity securities, available-for-sale	3,472	3,245
Commercial mortgage and other loans	4,700	3,528
Policy loans	1,702	1,698
Other long-term investments	1,312	1,105
Short-term investments	39,449	20,985
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(45,215)	(38,848)
Fixed maturities, held-to-maturity	(170)	(18)
Trading account assets supporting insurance liabilities and other trading account assets	(18,830)	(10,190)
Equity securities, available-for-sale	(3,233)	(2,897)
Commercial mortgage and other loans	(7,068)	(5,348)
Policy loans	(1,366)	(1,527)
Other long-term investments	(1,938)	(1,316)
Short-term investments	(41,437)	(20,905)
Acquisition of business, net of cash acquired	(488)	0
Other, net	(291)	167
Cash flows used in investing activities	(12,276)	(11,412)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	18,588	17,095
Policyholders account withdrawals	(19,091)	(17,935)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	3,371	2,222
Cash dividends paid on Common Stock	(585)	(53)
Cash dividends paid on Class B Stock	(14)	0
Net change in financing arrangements (maturities 90 days or less)	269	(74)
Common Stock acquired	(487)	(650)
Common Stock reissued for exercise of stock options	226	117
Proceeds from the issuance of debt (maturities longer than 90 days)	2,695	2,396

Repayments of debt (maturities longer than 90 days)	(3,428)	(2,384)
Excess tax benefits from share-based payment arrangements	21	53
Change in bank deposits	0	(1,730)
Other, net	587	274
Cash flows from (used in) financing activities	2,152	(669)
Effect of foreign exchange rate changes on cash balances	(809)	(13)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,450)	(345)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,100	14,251
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,650	$ 13,906
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	$ 104	$ 209

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (Prudential Financial) and its subsidiaries (collectively, Prudential or the Company) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds, and investment management. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance. The Company s businesses that are not sufficiently material to warrant separate disclosure and divested businesses are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 6), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholders dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company ceased offering these participating products.

Basis of Presentation

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

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made including adjustments described below under Out of Period Adjustments. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company s Audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

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 September 30, 2013, include the assets and liabilities of Gibraltar Life as of August 31, 2013 and the results of operations for Gibraltar Life for the three and nine months ended August 31, 2013.

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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Reclassifications

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

Out of Period Adjustments

In the second quarter of 2012, the Company recorded two out of period adjustments resulting in a decrease of $122 million to Income from continuing operations before income taxes and equity in earnings of operating joint ventures for the nine months ended September 30, 2012. These adjustments were related to a decline in the value of a real estate-related investment and an increase in reserves for estimated payments to deceased policy and contract holders. For additional information regarding these out of period adjustments, see Notes 1 and 24 to the Company s Consolidated Financial Statements included in its 2012 Annual Report on Form 10-K.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Investments in Debt and Equity Securities and Commercial Mortgage and Other Loans

The Company s investments in debt and equity securities include fixed maturities, equity securities and short-term investments. The accounting policies related to these, as well as commercial mortgage and other loans, are as follows:

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as available-for-sale are carried at fair value. See Note 13 for additional information regarding the determination of fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount, is included in Net investment income under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also vary based on other assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions can significantly impact income recognition and the amount of other-than-temporary impairments recognized in earnings and other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For mortgage-backed and asset-backed securities rated below AA or those for which an other than temporary impairment has been recorded, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Unrealized gains and losses on fixed maturities classified as available-for-sale, net of tax, and the effect on deferred policy acquisition costs, value of business acquired, deferred sales inducements, future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in Accumulated other comprehensive income (loss) (AOCI).

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Trading account assets supporting insurance liabilities, at fair value includes invested assets that support certain products included in the Retirement segment, as well as certain products included in the International Insurance segment, which are experience rated, meaning that the investment results associated with these products are expected to ultimately accrue to contractholders. Realized and unrealized gains and losses for these investments are reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income.

Other trading account assets, at fair value consist primarily of fixed maturities, equity securities, including certain perpetual preferred stock, and certain derivatives. Realized and unrealized gains and losses on these investments are reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income. See Derivative Financial Instruments below for additional information regarding the accounting for derivatives.

Equity securities available-for-sale are comprised of common stock, mutual fund shares, non-redeemable preferred stock, and certain perpetual preferred stock, and are carried at fair value. The associated unrealized gains and losses, net of tax, and the effect on deferred policy acquisition costs, value of business acquired, deferred sales inducements, future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in AOCI. The cost of equity securities is written down to fair value when a decline in value is considered to be other-than-temporary. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Dividends from these investments are recognized in Net investment income when earned.

Commercial mortgage and other loans consist of commercial mortgage loans, agricultural loans, loans backed by residential properties, as well as certain other collateralized and uncollateralized loans. Loans backed by residential properties primarily include recourse loans held by the Company s international insurance businesses. Other collateralized loans primarily include senior loans made by the Company s international insurance businesses and loans made to the Company s former real estate franchisees. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company s international insurance businesses.

Commercial mortgage and other loans originated and held for investment are generally carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses and net of an allowance for losses. Commercial mortgage loans originated within the Company s commercial mortgage operations include loans held for sale which are reported at the lower of cost or fair value; loans held for investment which are reported at amortized cost net of unamortized deferred loan origination fees and expenses and net of an allowance for losses; and loans reported at fair value under the fair value option. Commercial mortgage and other loans acquired, including those related to the acquisition of a business, are recorded at fair value when purchased, reflecting any premiums or discounts to unpaid principal balances.

Interest income, as well as prepayment fees and the amortization of the related premiums or discounts, related to commercial mortgage and other loans, are included in Net investment income.

Impaired loans include those loans for which it is probable that amounts due will not all be collected according to the contractual terms of the loan agreement. The Company defines past due as principal or interest not collected at least 30 days past the scheduled contractual due date. Interest received on loans that are past due, including impaired and non-impaired loans as well as loans that were previously modified in a troubled debt restructuring, is either applied against the principal or reported as net investment income based on the Company s assessment as to the collectability of the principal. See Note 4 for additional information about the Company s past due loans.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The Company discontinues accruing interest on loans after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability. When the Company discontinues accruing interest on a loan, any accrued but uncollectible interest on the loan and other loans backed by the same collateral, if any, is charged to interest income in the same period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where the payment of interest has been interrupted for a substantial period, or the loan has been modified, a regular payment performance has been established.

The Company reviews the performance and credit quality of the commercial mortgage and other loan portfolio on an on-going basis. Loans are placed on watch list status based on a predefined set of criteria and are assigned one of three categories. Loans are placed on early warning status in cases where, based on the Company s analysis of the loan s collateral, the financial situation of the borrower or tenants or other market factors, it is believed a loss of principal or interest could occur. Loans are classified as closely monitored when it is determined that there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where the Company has concluded that there is a high probability of loss of principal, such as when the loan is delinquent or in the process of foreclosure. As described below, in determining the allowance for losses, the Company evaluates each loan on the watch list to determine if it is probable that amounts due will not be collected according to the contractual terms of the loan agreement.

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property s net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan s current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments. The values utilized in calculating these ratios are developed as part of the Company s periodic review of the commercial mortgage loan and agricultural loan portfolio, which includes an internal appraisal of the underlying collateral value. The Company s periodic review also includes a quality re-rating process, whereby the internal quality rating originally assigned at underwriting is updated based on current loan, property and market information using a proprietary quality rating system. The loan-to-value ratio is the most significant of several inputs used to establish the internal credit rating of a loan which in turn drives the allowance for losses. Other key factors considered in determining the internal credit rating include debt service coverage ratios, amortization, loan term, estimated market value growth rate and volatility for the property type and region. See Note 4 for additional information related to the loan-to-value ratios and debt service coverage ratios related to the Company s commercial mortgage and agricultural loan portfolios.

Loans backed by residential properties, other collateralized loans, and uncollateralized loans are also reviewed periodically. Each loan is assigned an internal or external credit rating. Internal credit ratings take into consideration various factors including financial ratios and qualitative assessments based on non-financial information. In cases where there are personal or third party guarantors, the credit quality of the guarantor is also reviewed. These factors are used in developing the allowance for losses. Based on the diversity of the loans in these categories and their immateriality, the Company has not disclosed the credit quality indicators related to these loans in Note 4.

For those loans not reported at fair value, the allowance for losses includes a loan specific reserve for each impaired loan that has a specifically identified loss and a portfolio reserve for probable incurred but not

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

specifically identified losses. For impaired commercial mortgage and other loans, the allowances for losses are determined based on the present value of expected future cash flows discounted at the loan s effective interest rate, or based upon the fair value of the collateral if the loan is collateral dependent. The portfolio reserves for probable incurred but not specifically identified losses in the commercial mortgage and agricultural loan portfolios consider the current credit composition of the portfolio based on an internal quality rating (as described above). The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability and loss severity factors by property type. These factors are reviewed each quarter and updated as appropriate.

The allowance for losses on commercial mortgage and other loans can increase or decrease from period to period based on the factors noted above. Realized investment gains (losses), net includes changes in the allowance for losses and changes in value for loans accounted for under the fair value option. Realized investment gains (losses), net also includes gains and losses on sales, certain restructurings, and foreclosures.

When a commercial mortgage or other loan is deemed to be uncollectible, any specific valuation allowance associated with the loan is reversed and a direct write down to the carrying amount of the loan is made. The carrying amount of the loan is not adjusted for subsequent recoveries in value.

Commercial mortgage and other loans are occasionally restructured in a troubled debt restructuring. These restructurings generally include one or more of the following: full or partial payoffs outside of the original contract terms; changes to interest rates; extensions of maturity; or additions or modifications to covenants. Additionally, the Company may accept assets in full or partial satisfaction of the debt as part of a troubled debt restructuring. When restructurings occur, they are evaluated individually to determine whether the restructuring or modification constitutes a troubled debt restructuring as defined by authoritative accounting guidance. If the borrower is experiencing financial difficulty and the Company has granted a concession, the restructuring, including those that involve a partial payoff or the receipt of assets in full satisfaction of the debt, is deemed to be a troubled debt restructuring. Based on the Company s credit review process described above, these loans generally would have been deemed impaired prior to the troubled debt restructuring, and specific allowances for losses would have been established prior to the determination that a troubled debt restructuring has occurred.

In a troubled debt restructuring where the Company receives assets in full satisfaction of the debt, any specific valuation allowance is reversed and a direct write down of the loan is recorded for the amount of the allowance, and any additional loss, net of recoveries, or any gain is recorded for the difference between the fair value of the assets received and the recorded investment in the loan. When assets are received in partial settlement, the same process is followed, and the remaining loan is evaluated prospectively for impairment based on the credit review process noted above. When a loan is restructured in a troubled debt restructuring, the impairment of the loan is remeasured using the modified terms and the loan s original effective yield, and the allowance for loss is adjusted accordingly. Subsequent to the modification, income is recognized prospectively based on the modified terms of the loans in accordance with the income recognition policy noted above. Additionally, the loan continues to be subject to the credit review process noted above.

In situations where a loan has been restructured in a troubled debt restructuring and the loan has subsequently defaulted, this factor is considered when evaluating the loan for a specific allowance for losses in accordance with the credit review process noted above.

See Note 4 for additional information about commercial mortgage and other loans that have been restructured in a troubled debt restructuring.

Short-term investments primarily consist of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased, other than those debt instruments meeting this

10

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

definition that are included in Trading account assets supporting insurance liabilities, at fair value. These investments are generally carried at fair value and include certain money market investments, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments. Short-term investments held in the Company s former broker-dealer operations were marked-to-market through Income from discontinued operations, net of taxes.

Realized investment gains (losses) are computed using the specific identification method with the exception of some of the Company s International Insurance businesses portfolios, where the average cost method is used. Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for net other-than-temporary impairments recognized in earnings. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, allowance for losses on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment. See Derivative Financial Instruments below for additional information regarding the accounting for derivatives.

The Company s available-for-sale and held-to-maturity securities with unrealized losses are reviewed quarterly to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, the Company considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. With regard to available-for-sale equity securities, the Company also considers the ability and intent to hold the investment for a period of time to allow for a recovery of value. When it is determined that a decline in value of an equity security is other-than-temporary, the carrying value of the equity security is reduced to its fair value, with a corresponding charge to earnings.

An other-than-temporary impairment is recognized in earnings for a debt security in an unrealized loss position when the Company either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. For all debt securities in unrealized loss positions that do not meet either of these two criteria, the Company analyzes its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company may use the estimated fair value of collateral as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. In addition to the above mentioned circumstances, the Company also recognizes an other-than-temporary impairment in earnings when a non-functional currency denominated security in an unrealized loss position due to currency exchange rates approaches maturity.

When an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the debt security meets either of these two criteria or the unrealized losses due to changes in foreign currency exchange rates are not expected to be recovered before maturity, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

security and its net present value calculated as described above. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in Other comprehensive income (loss). Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in earnings is tracked as a separate component of AOCI.

For debt securities, the split between the amount of an other-than-temporary impairment recognized in other comprehensive income and the net amount recognized in earnings is driven principally by assumptions regarding the amount and timing of projected cash flows. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security s position within the capital structure of the issuer.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods, including increases in cash flow on a prospective basis. In certain cases where there are decreased cash flow expectations, the security is reviewed for further cash flow impairments.

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk used in valuation models. Derivative financial instruments generally used by the Company include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter (OTC) market. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities and to mitigate volatility of expected non-U.S. earnings and net investments in foreign operations resulting from changes in currency exchange rates. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 14, all realized and unrealized changes in fair value of derivatives are recorded in current earnings, with the exception of the effective portion of cash flow hedges and effective hedges of net investments in foreign operations. Cash flows from derivatives are reported in the operating, investing, or financing activities sections in the Unaudited Interim Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

Derivatives are recorded either as assets, within Other trading account assets, at fair value or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

recorded with the associated host contract. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

The Company designates derivatives as either (1) a hedge of the fair value of a recognized asset or liability or unrecognized firm commitment (fair value hedge); (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); (3) a foreign-currency fair value or cash flow hedge (foreign currency hedge); (4) a hedge of a net investment in a foreign operation; or (5) a derivative that does not qualify for hedge accounting.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge. Under such circumstances, the ineffective portion is recorded in Realized investment gains (losses), net.

The Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation.

When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset or liability (including losses or gains on firm commitments), are reported on a net basis in the income statement, generally in Realized investment gains (losses), net. When swaps are used in hedge accounting relationships, periodic settlements are recorded in the same income statement line as the related settlements of the hedged items.

When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in its fair value are recorded in AOCI until earnings are affected by the variability of cash flows being hedged (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). At that time, the related portion of deferred gains or losses on the derivative instrument is reclassified and reported in the income statement line item associated with the hedged item.

When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded either in current period earnings if the hedge transaction is a fair value hedge (e.g., a hedge of a recognized foreign currency asset or liability) or in AOCI if the hedge transaction is a cash flow hedge (e.g., a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded in the cumulative translation adjustment account within AOCI.

If it is determined that a derivative no longer qualifies as an effective fair value or cash flow hedge or management removes the hedge designation, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in Realized investment gains (losses), net. In this scenario, the hedged asset or liability under a fair value hedge will no longer be adjusted for changes in fair value and the existing basis adjustment is amortized to the income statement line associated with the asset or liability. The component of AOCI related to discontinued cash flow hedges is reclassified to the income statement line associated with the hedged cash flows consistent with the earnings impact of the original hedged cash flows.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

time period, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in Realized investment gains (losses), net. Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized currently in Realized investment gains (losses), net. Gains and losses that were in AOCI pursuant to the hedge of a forecasted transaction are recognized immediately in Realized investment gains (losses), net.

If a derivative does not qualify for hedge accounting, all changes in its fair value, including net receipts and payments, are included in Realized investment gains (losses), net without considering changes in the fair value of the economically associated assets or liabilities.

The Company is a party to financial instruments that contain derivative instruments that are embedded in the financial instruments. At inception, the Company assesses whether the economic characteristics of the embedded instrument are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded instrument possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded instrument qualifies as an embedded derivative that is separated from the host contract, carried at fair value, and changes in its fair value are included in Realized investment gains (losses), net. For certain financial instruments that contain an embedded derivative that otherwise would need to be bifurcated and reported at fair value, the Company may elect to classify the entire instrument as a trading account asset and report it within Other trading account assets, at fair value.

Adoption of New Accounting Pronouncements

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

In February 2013, the FASB issued updated guidance regarding the presentation of comprehensive income. Under the guidance, an entity is required to separately present information about significant items reclassified out of accumulated other comprehensive income by component as well as changes in accumulated other comprehensive income balances by component in either the financial statements or the notes to the financial statements. The guidance does not change the items that are reported in other comprehensive income, does not change when an item of other comprehensive income must be reclassified to net income, and does not amend any existing requirements for reporting net income or other comprehensive income. The guidance is effective for the first interim or annual reporting period beginning after December 15, 2012 and should be applied prospectively. The disclosures required by this guidance are included in Note 7.

In July 2013, the FASB issued new guidance regarding derivatives. The guidance permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting, in addition to the United States Treasury rate and London Inter-Bank Offered Rate (LIBOR). The guidance also removes the restriction on using different benchmark rates for similar hedges. The guidance is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

should be applied prospectively. Adoption of the guidance did not have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

Future Adoption of New Accounting Pronouncements

In March 2013, the FASB issued updated guidance regarding the recognition in net income of the cumulative translation adjustment upon the sale or loss of control of a business or group of assets residing in a foreign subsidiary, or a loss of control of a foreign investment. The guidance is effective for the first interim or annual reporting period beginning after December 15, 2013 and should be applied prospectively. This guidance is not expected to have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In June 2013, the FASB issued updated guidance clarifying the characteristics of an investment company and requiring new disclosures. Under the guidance, all entities regulated under the Investment Company Act of 1940 automatically qualify as investment companies, while all other entities need to consider both the fundamental and typical characteristics of an investment company in determining whether they qualify as investment companies. This new guidance is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively. This guidance is not expected to have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In July 2013, the FASB issued updated guidance regarding the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This new guidance is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively, with early application permitted. This guidance is not expected to have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of The Hartford s Individual Life Insurance Business

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

The assets and liabilities assumed have been included in the Company s Consolidated Financial Statements as of the acquisition date. Total assets assumed were $11.3 billion, which includes $1.3 billion of value of business acquired and $0.1 billion of cash, and total liabilities assumed were $10.7 billion. There is no goodwill, including tax deductible goodwill, associated with the acquisition.

Acquisition of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities from AIG

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc. (AIG) of AIG Star Life Insurance Co., Ltd. (Star), AIG Edison Life Insurance Company (Edison), AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

and AIG. The total purchase price was $4,709 million, comprised of $4,213 million in cash and $496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. The acquisition of these businesses included the purchase by the Company of all of the shares of these entities, which became indirect wholly-owned subsidiaries of the Company. All acquired entities were Japanese corporations and their businesses were in Japan, increasing the Company s scale in the Japanese insurance market. On January 1, 2012, Star and Edison were merged into Gibraltar Life.

Sale of Wealth Management Solutions Business

In April 2013, the Company signed a definitive agreement to sell its wealth management solutions business to Envestnet Inc. The transaction, which does not have a material impact to the Company s financial results, closed on July 1, 2013. Due to the existence of an ongoing contractual relationship between the Company and these operations, this disposition did not qualify for discontinued operations treatment under U.S. GAAP. See Note 11 for additional information.

Acquisition of UniAsia Life Assurance

On August 15, 2013, the Company reached agreement to acquire UniAsia Life Assurance Berhad, an established life insurance company in Malaysia, through the formation of a joint venture with Bank Simpanan Nasional (BSN), a bank owned by the Malaysian government. The joint venture will pay cash consideration of approximately $160 million, 70% of which will be provided by Prudential Insurance and 30% of which will be provided by BSN. This acquisition is part of the Company s strategic initiative to further expand its business in Southeast Asian markets. The transaction may close as early as the fourth quarter of 2013, subject to regulatory approvals and customary closing conditions.

Discontinued Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Real estate investments sold or held for sale(1)	$ 13	$ (3)	$ 15	$ 19
Global commodities business	(1)	0	1	0
Income from discontinued operations before income taxes	12	(3)	16	19

Income tax expense	4	(1)	5	7
Income from discontinued operations, net of taxes	$ 8	$ (2)	$ 11	$ 12

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

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

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

	September 30, 2013	**December 31, 2012**
	(in millions)	
Total assets	$ 32	$ 13
Total liabilities	$ 7	$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 11,496	$ 1,985	$ 154	$ 13,327	$ 0
Obligations of U.S. states and their political subdivisions	3,511	261	138	3,634	0
Foreign government bonds	76,007	6,849	298	82,558	1
Corporate securities	149,942	11,576	4,171	157,347	(6)
Asset-backed securities(1)	11,328	232	374	11,186	(779)
Commercial mortgage-backed securities	13,263	447	166	13,544	0
Residential mortgage-backed securities(2)	6,852	379	61	7,170	(10)
Total fixed maturities, available-for-sale	$ 272,399	$ 21,729	$ 5,362	$ 288,766	$ (794)
Equity securities, available-for-sale	$ 6,684	$ 2,341	$ 41	$ 8,984	

	September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, held-to-maturity					
Foreign government bonds	$ 1,005	$ 129	$ 0	$ 1,134	$ 0
Corporate securities(4)	1,004	43	31	1,016	0
Asset-backed securities(1)	758	46	1	803	0
Commercial mortgage-backed securities	219	24	0	243	0
Residential mortgage-backed securities(2)	643	33	0	676	0

Total fixed maturities, held-to-maturity(4)	$ 3,629	$ 275	$ 32	$ 3,872	$ 0

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in AOCI which were not included in earnings. Amount excludes $831 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(4) Excludes notes with amortized cost of $1,250 million (fair value, $1,314 million) which have been offset with the associated payables under a netting agreement.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 13,973	$ 3,448	$ 35	$ 17,386	$ 0
Obligations of U.S. states and their political subdivisions	2,952	505	5	3,452	0
Foreign government bonds	81,578	6,778	66	88,290	1
Corporate securities	146,924	13,996	1,589	159,331	(2)
Asset-backed securities(1)	11,846	221	731	11,336	(964)
Commercial mortgage-backed securities	11,228	726	17	11,937	5
Residential mortgage-backed securities(2)	9,153	484	33	9,604	(11)
Total fixed maturities, available-for-sale	$ 277,654	$ 26,158	$ 2,476	$ 301,336	$ (971)
Equity securities, available-for-sale	$ 6,759	$ 1,573	$ 55	$ 8,277	

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, held-to-maturity					
Foreign government bonds	$ 1,142	$ 108	$ 0	$ 1,250	$ 0
Corporate securities(4)	1,065	37	67	1,035	0
Asset-backed securities(1)	1,001	66	0	1,067	0
Commercial mortgage-backed securities	302	49	0	351	0
Residential mortgage-backed securities(2)	758	50	0	808	0
Total fixed maturities, held-to-maturity(4)	$ 4,268	$ 310	$ 67	$ 4,511	$ 0

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings. Amount excludes $778 million of net unrealized gains on impaired available-for-sale securities and $1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(4) Excludes notes with amortized cost of $1,500 million (fair value, $1,660 million) which have been offset with the associated payables under a netting agreement.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The amortized cost and fair value of fixed maturities by contractual maturities at September 30, 2013, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Due in one year or less	$ 11,469	$ 11,933	$ 0	$ 0
Due after one year through five years	46,803	50,763	59	60
Due after five years through ten years	58,812	63,160	397	406
Due after ten years(1)	123,872	131,010	1,553	1,684
Asset-backed securities	11,328	11,186	758	803
Commercial mortgage-backed securities	13,263	13,544	219	243
Residential mortgage-backed securities	6,852	7,170	643	676
Total	$ 272,399	$ 288,766	$ 3,629	$ 3,872

(1) Excludes notes with amortized cost of $1,250 million (fair value, $1,314 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Fixed maturities, available-for-sale				
Proceeds from sales	$ 7,603	$ 2,682	$ 22,237	$ 12,140
Proceeds from maturities/repayments	5,976	5,509	18,420	15,794
Gross investment gains from sales, prepayments, and maturities	607	129	1,249	397
Gross investment losses from sales and maturities	(197)	(87)	(391)	(245)
Fixed maturities, held-to-maturity				
Gross investment gains from prepayments	$ 0	$ 0	$ 0	$ 0
Proceeds from maturities/repayments	122	132	395	379
Equity securities, available-for-sale				

Proceeds from sales	$ 1,290	$ 1,101	$ 3,475	$ 3,251
Gross investment gains from sales	222	125	453	339
Gross investment losses from sales	(22)	(61)	(72)	(222)
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (43)	$ (95)	$ (146)	$ (300)
Writedowns for impairments on equity securities	(3)	(24)	(11)	(114)

(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.

19

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

As discussed in Note 2, a portion of certain other-than-temporary impairment (OTTI) losses on fixed maturity securities are recognized in Other comprehensive income (loss) (OCI). For these securities, the net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

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

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(in millions)	
Balance, beginning of period	$ 1,080	$ 1,166
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(113)	(263)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(1)	(1)
Credit loss impairment recognized in the current period on securities not previously impaired	1	9
Additional credit loss impairments recognized in the current period on securities previously impaired	27	66
Increases due to the passage of time on previously recorded credit losses	14	40
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(3)	(12)
Balance, end of period	$ 1,005	$ 1,005

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

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(in millions)	
Balance, beginning of period	$ 1,433	$ 1,475
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(48)	(133)

Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(10)	(69)
Credit loss impairment recognized in the current period on securities not previously impaired	1	31
Additional credit loss impairments recognized in the current period on securities previously impaired	22	80
Increases due to the passage of time on previously recorded credit losses	16	45
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(8)	(23)
Balance, end of period	$ 1,406	$ 1,406

(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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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:

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 1,119	$ 1,119	$ 938	$ 938
Fixed maturities:				
Corporate securities	11,991	12,566	11,076	12,107
Commercial mortgage-backed securities	2,382	2,420	2,096	2,229
Residential mortgage-backed securities(1)	1,731	1,729	1,965	2,026
Asset-backed securities(2)	1,177	1,187	1,179	1,116
Foreign government bonds	613	627	683	708
U.S. government authorities and agencies and obligations of U.S. states	308	344	369	426
Total fixed maturities	18,202	18,873	17,368	18,612
Equity securities	899	1,139	943	1,040
Total trading account assets supporting insurance liabilities	$ 20,220	$ 21,131	$ 19,249	$ 20,590

(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 Asset management fees and other income , was $63 million and $288 million during the three months ended September 30, 2013 and 2012, respectively, and ($430) million and $568 million during the nine months ended September 30, 2013 and 2012, respectively.

Other Trading Account Assets

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

	September 30, 2013	December 31, 2012

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Short-term investments and cash equivalents	$ 79	$ 80	$ 42	$ 42
Fixed maturities	3,810	3,822	2,196	2,132
Equity securities	1,038	1,146	1,363	1,437
Other	3	7	3	6
Subtotal	4,930	5,055	3,604	3,617
Derivative instruments		1,348		2,711
Total other trading account assets	$ 4,930	$ 6,403	$ 3,604	$ 6,328

The net change in unrealized gains (losses) from other trading account assets, excluding derivative instruments, still held at period end, recorded within Asset management fees and other income was $25 million and $62 million during the three months ended September 30, 2013 and 2012, respectively, and $112 million and $149 million during the nine months ended September 30, 2013 and 2012, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Concentrations of Financial Instruments

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

As of both September 30, 2013 and December 31, 2012, 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.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	$ 60,680	$ 65,782	$ 66,590	$ 70,997
Fixed maturities, held-to-maturity	982	1,110	1,118	1,223
Trading account assets supporting insurance liabilities	484	489	513	524
Other trading account assets	39	39	39	40
Short-term investments	0	0	0	0
Cash equivalents	1,243	1,243	1,637	1,637
Total	$ 63,428	$ 68,663	$ 69,897	$ 74,421

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	$ 6,323	$ 7,049	$ 5,837	$ 6,883
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	62	61	62	63
Other trading account assets	0	0	2	2
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$ 6,385	$ 7,110	$ 5,901	$ 6,948

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Commercial Mortgage and Other Loans

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

	September 30, 2013		December 31, 2012	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial and agricultural mortgage loans by property type:				
Office	$ 7,841	20.8%	$ 6,890	20.1%
Retail	8,691	23.1	8,190	23.9
Apartments/Multi-Family	6,555	17.4	5,235	15.3
Industrial	7,467	19.8	7,636	22.3
Hospitality	1,941	5.2	1,322	3.9
Other	2,992	8.0	2,841	8.3
Total commercial mortgage loans	35,487	94.3	32,114	93.8
Agricultural property loans	2,139	5.7	2,122	6.2
Total commercial and agricultural mortgage loans by property type	37,626	100.0%	34,236	100.0%
Valuation allowance	(187)		(229)	
Total net commercial and agricultural mortgage loans by property type	37,439		34,007	
Other loans				
Uncollateralized loans	1,439		1,836	
Residential property loans	600		790	
Other collateralized loans	40		140	
Total other loans	2,079		2,766	
Valuation allowance	(21)		(40)	
Total net other loans	2,058		2,726	
Total commercial mortgage and other loans(1)	$ 39,497		$ 36,733	

(1) Includes loans held at fair value.

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (26%), New York (10%), and Texas (9%) at September 30, 2013.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for losses, beginning of year	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269
Addition to / (release of) allowance of losses	2	(6)	(3)	(10)	(2)	(19)
Charge-offs, net of recoveries	(32)	(6)	0	0	0	(38)
Change in foreign exchange	0	0	(1)	0	(3)	(4)
Total ending balance	$ 179	$ 8	$ 7	$ 2	$ 12	$ 208

	December 31, 2012					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for losses, beginning of year	$ 294	$ 19	$ 16	$ 18	$ 20	$ 367
Addition to / (release of) allowance of losses	(20)	1	(4)	(6)	(2)	(31)
Charge-offs, net of recoveries	(65)	0	0	0	0	(65)
Change in foreign exchange	0	0	(1)	0	(1)	(2)
Total ending balance	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 16	$ 0	$ 0	$ 2	$ 0	$ 18
Ending balance: collectively evaluated for impairment	163	8	7	0	12	190
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 179	$ 8	$ 7	$ 2	$ 12	$ 208
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 482	$ 5	$ 0	$ 8	$ 2	$ 497
Ending balance gross of reserves: collectively evaluated for impairment	35,005	2,134	600	32	1,437	39,208
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 35,487	$ 2,139	$ 600	$ 40	$ 1,439	$ 39,705

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2012					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 49	$ 12	$ 0	$ 12	$ 0	$ 73
Ending balance: collectively evaluated for impairment	160	8	11	0	17	196
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 1,011	$ 49	$ 0	$ 93	$ 3	$ 1,156
Ending balance gross of reserves: collectively evaluated for impairment	31,103	2,073	790	47	1,833	35,846
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 32,114	$ 2,122	$ 790	$ 140	$ 1,836	$ 37,002

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2013				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance (in millions)	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
With no related allowance recorded:					
Commercial mortgage loans	$ 27	$ 27	$ 0	$ 30	$ 1
Agricultural property loans	5	0	0	1	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total with no related allowance	$ 32	$ 29	$ 0	$ 31	$ 1
With an allowance recorded:					
Commercial mortgage loans	$ 90	$ 90	$ 16	$ 138	$ 2
Agricultural property loans	0	0	0	13	0
Residential property loans	0	0	0	0	0
Other collateralized loans	5	5	2	9	3
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 95	$ 95	$ 18	$ 160	$ 5
Total:					
Commercial mortgage loans	$ 117	$ 117	$ 16	$ 168	$ 3
Agricultural property loans	5	0	0	14	0
Residential property loans	0	0	0	0	0
Other collateralized loans	5	5	2	9	3
Uncollateralized loans	0	2	0	0	0
Total	$ 127	$ 124	$ 18	$ 191	$ 6

(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.

27

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2012				
	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(4)	$ 27	$ 166	$ 0	$ 54	$ 4
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	2	0	4	0
Total with no related allowance	$ 27	$ 168	$ 0	$ 58	$ 4
With an allowance recorded:					
Commercial mortgage loans	$ 185	$ 185	$ 50	$ 351	$ 8
Agricultural property loans	17	17	12	16	0
Residential property loans	0	0	0	0	0
Other collateralized loans	17	17	11	19	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 219	$ 219	$ 73	$ 386	$ 8
Total:					
Commercial mortgage loans(4)	$ 212	$ 351	$ 50	$ 405	$ 12
Agricultural property loans	17	17	12	16	0
Residential property loans	0	0	0	0	0
Other collateralized loans	17	17	11	19	0
Uncollateralized loans	0	2	0	4	0
Total	$ 246	$ 387	$ 73	$ 444	$ 12

(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.
(4) Includes the impact of loans acquired from the Star Business for which the balance sheet carrying value had been previously written down.

The net carrying value of commercial and other loans held for sale by the Company as of September 30, 2013 and December 31, 2012 was $93 million and $114 million, respectively. In all of these transactions, the Company pre-arranges that it will sell the loan to an investor. As of September 30, 2013 and December 31, 2012, all of the Company s commercial and other loans held for sale were collateralized, with collateral primarily consisting of office buildings, retail properties, apartment complexes and industrial buildings.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables set forth the credit quality indicators as of September 30, 2013, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio	September 30, 2013		
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 17,511	$ 648	$ 243	$ 18,402
60%-69.99%	11,009	447	108	11,564
70%-79.99%	3,705	773	228	4,706
Greater than 80%	284	185	346	815
Total commercial mortgage loans	$ 32,509	$ 2,053	$ 925	$ 35,487

Agricultural property loans

	Debt Service Coverage Ratio	September 30, 2013		
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 1,758	$ 176	$ 13	$ 1,947
60%-69.99%	192	0	0	192
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	$ 1,950	$ 176	$ 13	$ 2,139

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio	September 30, 2013		
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total

		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 19,269	$ 824	$ 256	$ 20,349
60%-69.99%	11,201	447	108	11,756
70%-79.99%	3,705	773	228	4,706
Greater than 80%	284	185	346	815
Total commercial and agricultural mortgage loans	$ 34,459	$ 2,229	$ 938	$ 37,626

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables set forth the credit quality indicators as of December 31, 2012, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio December 31, 2012			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 15,089	$ 487	$ 188	$ 15,764
60%-69.99%	9,263	801	36	10,100
70%-79.99%	3,689	776	217	4,682
Greater than 80%	219	770	579	1,568
Total commercial mortgage loans	$ 28,260	$ 2,834	$ 1,020	$ 32,114

Agricultural property loans

	Debt Service Coverage Ratio December 31, 2012			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 1,635	$ 186	$ 44	$ 1,865
60%-69.99%	213	0	0	213
70%-79.99%	0	0	0	0
Greater than 80%	0	0	44	44
Total agricultural property loans	$ 1,848	$ 186	$ 88	$ 2,122

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio December 31, 2012			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total

		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 16,724	$ 673	$ 232	$ 17,629
60%-69.99%	9,476	801	36	10,313
70%-79.99%	3,689	776	217	4,682
Greater than 80%	219	770	623	1,612
Total commercial and agricultural mortgage loans	$ 30,108	$ 3,020	$ 1,108	$ 34,236

30

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2013							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 35,448	$ 19	$ 0	$ 0	$ 20	$ 39	$ 35,487	$ 113
Agricultural property loans	2,137	0	0	0	2	2	2,139	2
Residential property loans	579	6	2	0	13	21	600	13
Other collateralized loans	38	0	0	0	2	2	40	5
Uncollateralized loans	1,439	0	0	0	0	0	1,439	3
Total	$ 39,641	$ 25	$ 2	$ 0	$ 37	$ 64	$ 39,705	$ 136

	December 31, 2012							
	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	$ 31,943	$ 43	$ 91	$ 0	$ 37	$ 171	$ 32,114	$ 190
Agricultural property loans	2,077	0	0	0	45	45	2,122	49
Residential property loans	759	12	5	0	14	31	790	14
Other collateralized loans	139	0	0	0	1	1	140	17
Uncollateralized loans	1,836	0	0	0	0	0	1,836	3
Total	$ 36,754	$ 55	$ 96	$ 0	$ 97	$ 248	$ 37,002	$ 273

See Note 2 for further discussion regarding nonaccrual status loans.

For the three months ended September 30, 2013 and 2012, there were no commercial mortgage and other loans acquired, other than those through direct origination and no new commercial mortgage and other loans sold, other than those classified as held-for-sale.

The Company s commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of both September 30, 2013 and December 31, 2012, the Company had no significant commitments to fund to borrowers that have been involved in a troubled debt restructuring. During the three months and nine months ended September 30, 2013, there were adjusted pre-modification outstanding recorded investments of $7 million and $107 million, respectively, and post-modification outstanding recorded investments of $8 million and $107 million, respectively, related to commercial mortgage loans. No payment defaults on commercial mortgage and other loans were modified as a troubled debt restructuring within the 12 months preceding each respective period. See Note 2 for additional information relating to the accounting for troubled debt restructurings.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Investment Income

Net investment income for the three and nine months ended September 30, 2013 and 2012, was from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Fixed maturities, available-for-sale	$ 2,618	$ 2,427	$ 7,910	$ 7,244
Fixed maturities, held-to-maturity	31	34	92	102
Equity securities, available-for-sale	93	85	265	247
Trading account assets	243	215	715	666
Commercial mortgage and other loans	498	516	1,480	1,487
Policy loans	159	148	457	443
Short-term investments and cash equivalents	9	11	30	35
Other long-term investments	145	100	477	211
Gross investment income	3,796	3,536	11,426	10,435
Less: investment expenses	(146)	(103)	(427)	(324)
Net investment income	$ 3,650	$ 3,433	$ 10,999	$ 10,111

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and nine months ended September 30, 2013 and 2012, were from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Fixed maturities	$ 368	$ (53)	$ 712	$ (148)
Equity securities	198	40	369	3
Commercial mortgage and other loans	31	28	68	49
Investment real-estate	2	4	2	(63)
Joint ventures and limited partnerships	16	(3)	10	(1)
Derivatives(1)	(2,730)	(1,458)	(5,030)	(903)
Other	5	(3)	12	(3)

Realized investment gains (losses), net	$ (2,110)	$ (1,445)	$ (3,857)	$ (1,066)

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Unrealized Gains (Losses) on Investments by Asset Class

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

	September 30, 2013	December 31, 2012
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ 37	$ (194)
Fixed maturity securities, available-for-sale all other	16,330	23,876
Equity securities, available-for-sale	2,300	1,518
Derivatives designated as cash flow hedges(1)	(355)	(257)
Other investments(2)	(11)	14
Net unrealized gains (losses) on investments	$ 18,301	$ 24,957

(1) See Note 14 for more information on cash flow hedges.
(2) As of September 30, 2013, includes $26 million of net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Also includes net unrealized gains on certain joint ventures that are 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:

	September 30, 2013					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 1,424	$ 141	$ 49	$ 13	$ 1,473	$ 154
Obligations of U.S. states and their political subdivisions	1,198	135	16	3	1,214	138
Foreign government bonds	5,241	289	54	9	5,295	298
Corporate securities	44,459	3,783	3,882	420	48,341	4,203

Commercial mortgage-backed securities	3,864	164	58	2	3,922	166
Asset-backed securities	2,363	15	2,661	359	5,024	374
Residential mortgage-backed securities	1,825	51	204	10	2,029	61
Total	$ 60,374	$ 4,578	$ 6,924	$ 816	$ 67,298	$ 5,394
Equity securities, available-for-sale	$ 826	$ 41	$ 1	$ 0	$ 827	$ 41

(1) Includes $233 million of fair value and $32 million of gross unrealized losses at September 30, 2013, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2012					
	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	$ 2,191	$ 33	$ 42	$ 2	$ 2,233	$ 35
Obligations of U.S. states and their political subdivisions	343	5	5	0	348	5
Foreign government bonds	5,426	55	167	11	5,593	66
Corporate securities	25,051	599	7,961	1,057	33,012	1,656
Commercial mortgage-backed securities	525	3	185	14	710	17
Asset-backed securities	911	11	3,545	720	4,456	731
Residential mortgage-backed securities	773	4	259	29	1,032	33
Total	$ 35,220	$ 710	$ 12,164	$ 1,833	$ 47,384	$ 2,543
Equity securities, available-for-sale	$ 961	$ 55	$ 0	$ 0	$ 961	$ 55

(1) Includes $526 million of fair value and $67 million of gross unrealized losses at December 31, 2012, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

The gross unrealized losses at September 30, 2013 and December 31, 2012, are composed of $4,959 million and $1,866 million, respectively, related to high or highest quality securities based on NAIC or equivalent rating and $434 million and $677 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At September 30, 2013, the $816 million of gross unrealized losses of twelve months or more were concentrated in the utility, finance, and consumer non-cyclical sectors of the Company s corporate securities. At December 31, 2012, the $1,833 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the finance, and consumer cyclical sectors of the Company s corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at September 30, 2013 or December 31, 2012. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to foreign currency movements, credit spread widening and increased liquidity discounts. At September 30, 2013, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before the anticipated recovery of their remaining amortized cost bases.

At September 30, 2013, $1 million of the gross unrealized losses represented declines in value of greater than 20%, all of which had been in that position for less than six months. At December 31, 2012, $6 million of the gross unrealized losses represented declines in value of greater than 20%, $4 million of which had been in that position for less than six months. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at September 30, 2013 or December 31, 2012.

34

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

5. VARIABLE INTEREST ENTITIES

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

If the Company determines that it is the VIE s primary beneficiary, it consolidates the VIE. There are currently two models for determining whether or not the Company is the primary beneficiary of a VIE. The first 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 and would be required to consolidate the VIE.

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. If both conditions are present the Company would be required to consolidate the VIE.

Consolidated Variable Interest Entities for which the Company is the Investment Manager

The Company is the investment manager of certain asset-backed investment vehicles (commonly referred to as collateralized debt obligations, or CDOs) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures in which the Company s asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company sells or syndicates investments through these vehicles, principally as part of the strategic investing activity of the Company s asset management businesses. Additionally, the Company may invest in securities issued by these vehicles. CDOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company analyzes these relationships to determine whether it 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 and thus is the primary beneficiary. 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 Company is not required to provide, and has not provided, material financial or other support to any VIE for which it is the investment manager.

35

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The Company has determined that it is the primary beneficiary of certain VIEs for which it is the investment manager, including certain CDOs and other investment structures, as it meets both conditions listed above. The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs for which the Company is the investment manager are reported. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIE.

	September 30, 2013	December 31, 2012
	(in millions)	
Fixed maturities, available-for-sale	$ 81	$ 87
Other trading account assets	2,793	1,409
Commercial mortgage and other loans	65	127
Other long-term investments	0	22
Cash and cash equivalents	150	9
Accrued investment income	14	0
Other assets	92	1
Total assets of consolidated VIEs	$ 3,195	$ 1,655
Notes issued by consolidated VIEs	$ 2,423	$ 1,577
Other liabilities	208	0
Total liabilities of consolidated VIEs	$ 2,631	$ 1,577

As included in the table above, notes issued by consolidated VIEs are reported on the Consolidated Statements of Financial Position within 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 September 30, 2013, the maturities of these obligations were over five years.

The Company also consolidates a VIE whose beneficial interests are wholly-owned by consolidated subsidiaries. This VIE is not included in the table above and the Company does not currently intend to sell these beneficial interests to third parties.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Other Consolidated Variable Interest Entities

The Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities. 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 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 for which the Company is not the investment manager are reported. The liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of each consolidated VIE have recourse only to the assets of that VIE.

	September 30, 2013	December 31, 2012
	(in millions)	
Fixed maturities, available-for-sale	$ 116	$ 115
Fixed maturities, held-to-maturity	933	1,059
Trading account assets supporting insurance liabilities	11	8
Other long-term investments	64	53
Accrued investment income	4	3
Total assets of consolidated VIEs	$ 1,128	$ 1,238
Other liabilities	$ 1	$ 1
Total liabilities of consolidated VIEs	$ 1	$ 1

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

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust s medium-term note liability, including accrued interest, of $2,057 million and $1,780 million at September 30, 2013 and December 31, 2012, respectively, is classified within Policyholders account balances. Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support to the trust that was not contractually required.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager, including certain CDOs and other investment structures, 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 $530 million and $602 million at September 30, 2013 and December 31, 2012, respectively. These investments are reflected in Fixed maturities, available-for-sale, Other trading

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

account assets, at fair value and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was $9,059 million and $9,240 million as of September 30, 2013 and December 31, 2012, respectively. The Company provided a guarantee to an unconsolidated VIE under which it was exposed to potential losses in the amount of $64 million as of December 31, 2012. As of July 10, 2013, the Company is no longer providing this guarantee. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

In the normal course of its activities, the Company invests in joint ventures and limited partnerships. These ventures primarily 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 $6,870 million and $6,873 million as of September 30, 2013 and December 31, 2012, 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.

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE s portfolio of assets and related investment activity. The market value of these VIEs was approximately $2.0 billion and $2.1 billion as of September 30, 2013 and December 31, 2012, respectively, and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available-for-sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. The Company s variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company s maximum exposure to loss from these interests was $323 million and $314 million at September 30, 2013 and December 31, 2012, respectively, which includes the fair value of the embedded derivatives.

6. CLOSED BLOCK

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

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the effective date of the Plan of Reorganization and for which Prudential Insurance is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 September 30, 2013 and December 31, 2012, the Company recognized a policyholder dividend obligation of $955 million and $885 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 were reflected as a policyholder dividend obligation of $3,641 million and $5,478 million at September 30, 2013 and December 31, 2012, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI. See the table below for changes in the components of the policyholder dividend obligation for the nine months ended September 30, 2013.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2013	December 31, 2012
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 50,321	$ 50,839
Policyholders dividends payable	923	887
Policyholders dividend obligation	4,596	6,363
Policyholders account balances	5,370	5,426
Other Closed Block liabilities	4,586	3,366
Total Closed Block Liabilities	65,796	66,881
Closed Block Assets		
Fixed maturities, available-for-sale, at fair value	39,714	41,980
Other trading account assets, at fair value	231	224
Equity securities, available-for-sale, at fair value	3,496	3,225
Commercial mortgage and other loans	8,874	8,747
Policy loans	5,036	5,120
Other long-term investments	2,037	2,094
Short-term investments	1,993	1,194
Total investments	61,381	62,584
Cash and cash equivalents	480	511
Accrued investment income	576	550
Other Closed Block assets	411	262
Total Closed Block Assets	62,848	63,907
Excess of reported Closed Block Liabilities over Closed Block Assets	2,948	2,974
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,640	5,467
Allocated to policyholder dividend obligation	(3,641)	(5,478)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 2,947	$ 2,963

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2013 (in millions)
Balance, January 1	$ 6,363
Impact from earnings allocable to policyholder dividend obligation	70
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(1,837)
Balance, September 30	$ 4,596

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(in millions)			
Revenues				
Premiums	$ 629	$ 646	$ 1,987	$ 2,060
Net investment income	678	710	2,099	2,177
Realized investment gains (losses), net	208	74	284	220
Other income	25	15	40	14
Total Closed Block revenues	1,540	1,445	4,410	4,471
Benefits and Expenses				
Policyholders benefits	774	776	2,459	2,565
Interest credited to policyholders account balances	34	34	102	103
Dividends to policyholders	557	478	1,468	1,454
General and administrative expenses	116	122	353	372
Total Closed Block benefits and expenses	1,481	1,410	4,382	4,494
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	59	35	28	(23)
Income tax benefit	53	29	12	(36)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	6	6	16	13
Income (loss) from discontinued operations, net of taxes	0	(1)	0	(2)
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ 6	$ 5	$ 16	$ 11

7. EQUITY

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

	Common Stock			Class B Stock
	Issued	Held In Treasury	Outstanding	Issued and Outstanding
	(in millions)			
Balance, December 31, 2012	660.1	197.1	463.0	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	7.1	(7.1)	0.0
Stock-based compensation programs(1)	0.0	(6.0)	6.0	0.0
Balance, September 30, 2013	660.1	198.2	461.9	2.0

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

In June 2012, 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 through June 2013. Under this

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

authorization, 6.6 million shares of the Company s common stock were repurchased at a total cost of $400 million, of which 3.9 million shares were repurchased in the first six months of 2013 at a total cost of $250 million.

In June 2013, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock from July 1, 2013 through June 30, 2014. As of September 30, 2013, 3.2 million shares of the Company s Common Stock were repurchased under this authorization at a total cost of $250 million. The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Exchange Act. Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including increased capital needs of the Company due to changes in regulatory capital requirements, opportunities for growth and acquisitions, and the effect of adverse market conditions on the segments.

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the nine months ended September 30, 2013 and 2012 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, 2012	$ 928	$ 11,402	$ (2,116)	$ 10,214
Change in other comprehensive income before reclassifications	(1,160)	(2,754)	26	(3,888)
Amounts reclassified from AOCI	0	(1,065)	94	(971)
Income tax benefit (expense)	328	1,259	(43)	1,544
Balance, September 30, 2013	$ 96	$ 8,842	$ (2,039)	$ 6,899

	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	Total Accumulated Other

			Periodic Benefit (Cost)	Comprehensive Income (Loss)
		(in millions)		
Balance, December 31, 2011	$ 1,107	$ 5,805	$ (1,667)	$ 5,245
Change in component during period(2)	134	4,000	68	4,202
Balance, September 30, 2012	$ 1,241	$ 9,805	$ (1,599)	$ 9,447

(1) Includes cash flow hedges of $(355) million and $(257) million as of September 30, 2013 and December 31, 2012, respectively, and $(126) million and $(86) million as of September 30, 2012 and December 31, 2011, respectively.

(2) Net of taxes.

42

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Affected line item in Consolidated Statements of Operations
	(in millions)		
Amounts reclassified from AOCI(1)(2):			
Foreign currency translation adjustment:			
Foreign currency translation adjustment	$ 0	$ 0	Realized investment gains (losses), net
Foreign currency translation adjustment	0	0	Other income
Total foreign currency translation adjustment	0	0	
Net unrealized investment gains (losses):			
Cash flow hedges Interest Rate	(6)	(18)	(3)
Cash flow hedges Currency/Interest rate	(21)	(65)	(3)
Net unrealized investment gains (losses) on available-for-sale securities	568	1,082	
Net unrealized investment gains (losses) all other	0	66	
Total net unrealized investment gains (losses)	541	1,065	(4)
Amortization of defined benefit pension items:			
Prior service cost	6	17	(5)
Actuarial gain (loss)	(37)	(111)	(5)
Transition obligation	0	0	(5)
Total amortization of defined benefit pension items	(31)	(94)	
Total reclassifications for the period	$ 510	$ 971	

(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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Unrealized Investment Gains (Losses)

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

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

	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
				(in millions)		
Balance, December 31, 2012	$ (194)	$ 3	$ 3	$ 139	$ 18	$ (31)
Net investment gains (losses) on investments arising during the period	192				(67)	125
Reclassification adjustment for (gains) losses included in net income	46				(16)	30
Reclassification adjustment for OTTI losses excluded from net income(1)	(7)				2	(5)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(5)			2	(3)
Impact of net unrealized investment (gains) losses on future policy benefits			0		0	0
Impact of net unrealized investment (gains) losses on policyholders dividends				(97)	34	(63)
Balance, September 30, 2013	$ 37	$ (2)	$ 3	$ 42	$ (27)	$ 53

(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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2012	$ 25,151	$ (1,228)	$ (1,144)	$ (5,627)	$ (5,719)	$ 11,433
Net investment gains (losses) on investments arising during the period	(5,783)				1,947	(3,836)
Reclassification adjustment for (gains) losses included in net income	(1,111)				389	(722)
Reclassification adjustment for OTTI losses excluded from net income(2)	7				(2)	5
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		638			(223)	415
Impact of net unrealized investment (gains) losses on future policy benefits			363		(128)	235
Impact of net unrealized investment (gains) losses on policyholders dividends				1,936	(677)	1,259
Balance, September 30, 2013	$ 18,264	$ (590)	$ (781)	$ (3,691)	$ (4,413)	$ 8,789

(1) Includes cash flow hedges. See Note 14 for information on cash flow hedges.
(2) Represents transfers out related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

8. EARNINGS PER SHARE

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

Net income for the Financial Services Businesses and the Closed Block Business is determined in accordance with U.S. GAAP and includes general and administrative expenses charged to each of the respective businesses based on the Company s methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The direct equity adjustments modify the earnings available to each of the classes of common stock for earnings per share purposes.

Common Stock

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

	Three Months Ended September 30,					
	2013			2012		
	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	$ 992			$ (601)		
Direct equity adjustment	2			4		
Less: Income attributable to noncontrolling interests	19			25		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	9			0		
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 966	462.6	$ 2.09	$ (622)	464.4	$ (1.34)
Effect of dilutive securities and compensation programs(1)						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Basic	$ 9			$ 0		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Diluted	9			0		
Stock options		3.4			0.0	
Deferred and long-term compensation programs		0.7			0.0	
Exchangeable Surplus Notes	4	5.3		0	0.0	
Diluted earnings per share(1)						
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 970	472.0	$ 2.06	$ (622)	464.4	$ (1.34)

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30,					
	2013			2012		
	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	$ (179)			$ 679		
Direct equity adjustment	7			20		
Less: Income attributable to noncontrolling interests	96			51		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	6			6		
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ (274)	463.7	$ (0.59)	$ 642	466.6	$ 1.38
Effect of dilutive securities and compensation programs(1)(2)						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Basic	$ 6			$ 6		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Diluted	6			6		
Stock options		0.0			2.1	
Deferred and long-term compensation programs		0.0			0.5	
Exchangeable Surplus Notes	0	0.0		0	0.0	
Diluted earnings per share(1)(2)						
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ (274)	463.7	$ (0.59)	$ 642	469.2	$ 1.37

(1) For the three months ended September 30, 2012 and the nine months ended September 30, 2013, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a loss from continuing operations is reported. As a result of the loss from continuing operations available to holders of Common Stock after direct equity adjustment for the three months ended September 30, 2012 and the nine months ended September 30, 2013, all potential stock options and compensation programs were considered antidilutive.

(2) For the nine months ended September 30, 2012, weighted average shares used for calculating diluted earnings per share excludes the potential shares that would be issued related to the exchangeable surplus notes since the hypothetical impact of these shares was antidilutive. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued related to the exchangeable surplus notes assuming a hypothetical exchange, weighted for the period the notes are outstanding, is added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive.

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

47

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. For the three months ended September 30, 2012 and the nine months ended September 30, 2013, undistributed earnings were not allocated to participating unvested share-based payment awards as these awards do not participate in losses. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2013 were based on 4.4 million and the nine months ended September 30, 2012 were based on 4.7 million of such awards, respectively, weighted for the period they were outstanding. The computation of earnings per share of Common Stock excludes the dilutive impact of participating unvested share-based awards based on the application of the two-class method.

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. For the three months ended September 30, 2013, 2.2 million options, with a weighted average exercise price of $88.63 per share were considered antidilutive. For the nine months ended September 30, 2013, 19.6 million options and 5.2 million shares related to deferred and long-term compensation programs, weighted for the portion of the period they were outstanding, were considered antidilutive, of which 11.4 million options and 5.2 million shares were antidilutive due to the loss from continuing operations available to holders of Common Stock after direct equity adjustment. The remaining 8.2 million options, with a weighted average exercise price of $72.33 per share were considered antidilutive based on application of the treasury stock method. For the three months ended September 30, 2012, 20.1 million options and 5.1 million shares related to deferred and long-term compensation programs, weighted for the portion of the period they were outstanding, were considered antidilutive, of which 6.1 million options and 5.1 million shares are antidilutive due to the loss from continuing operations available to holders of Common Stock after direct equity adjustment. The remaining 14.0 million options, with a weighted average exercise price of $68.97 per share were considered antidilutive based on application of the treasury stock method. For the nine months ended September 30, 2012, 13.1 million options, with a weighted average exercise price of $70.11 per share were considered antidilutive based on application of the treasury stock method.

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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Class B Stock

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

	Three Months Ended September 30, 2013			2012		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations attributable to the Closed Block Business	$ 61			$ 44		
Less: Direct equity adjustment	2			4		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 59	2.0	$ 29.50	$ 40	2.0	$ 20.00

	Nine Months Ended September 30, 2013			2012		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations attributable to the Closed Block Business	$ 79			$ 61		
Less: Direct equity adjustment	7			20		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 72	2.0	$ 36.00	$ 41	2.0	$ 20.50

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

9. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

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

	September 30, 2013	December 31, 2012
	(in millions)	
Commercial paper:		
Prudential Financial	$ 185	$ 113
Prudential Funding, LLC	804	359
Subtotal commercial paper	989	472
Other notes payable(1)	100	100
Current portion of long-term debt(2)	2,029	1,912
Total short-term debt(3)	$ 3,118	$ 2,484
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	$ 319	$ 156
Daily average commercial paper outstanding	$ 1,291	$ 1,194
Weighted average maturity of outstanding commercial paper, in days	27	21
Weighted average interest rate on outstanding short-term debt(4)	0.19%	0.28%

(1) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $100 million at both September 30, 2013 and December 31, 2012, discussed in more detail below.
(2) Includes limited and non-recourse borrowings of Prudential Holdings, LLC attributable to the Closed Block Business of $75 million at both September 30, 2013 and December 31, 2012.
(3) Includes Prudential Financial debt of $1,704 million and $1,847 million at September 30, 2013 and December 31, 2012, respectively.
(4) Excludes the current portion of long-term debt.

Commercial Paper

Prudential Financial has a commercial paper program with an authorized capacity of $3.0 billion. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of Prudential Financial and its subsidiaries.

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

Federal Home Loan Bank of New York

Prudential Insurance is a member of the Federal Home Loan Bank of New York or FHLBNY. Membership allows Prudential Insurance access to the FHLBNY s financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. Under applicable law, the funding agreements

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

issued to the FHLBNY have priority claim status above debt holders of Prudential Insurance. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if Prudential Insurance s financial strength ratings decline below A/A2/A Stable by S&P/Moody s/Fitch, respectively, and the FHLBNY does not receive written assurances from the NJDOBI regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY.

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance s statutory net admitted assets as of December 31, 2012, the 5% limitation equates to a maximum amount of pledged assets of $8.1 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately $6.7 billion, of which $2.3 billion was outstanding. Nevertheless, FHLBNY borrowings are subject to the FHLBNY s discretion and to the availability of qualifying assets at Prudential Insurance.

As of September 30, 2013, Prudential Insurance had pledged qualifying assets with a fair value of $2.8 billion that supported outstanding collateralized advances and collateralized funding agreements. As of September 30, 2013, $100 million of the FHLBNY outstanding advances is reflected in Short-term debt and matures in December 2013 and $280 million is in Long-term debt and matures in December 2015. Outstanding collateralized funding agreements, which totaled $1,947 million at September 30, 2013, are included in Policyholders account balances. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $3.0 billion as of September 30, 2013.

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company, or PRIAC, is a member of the Federal Home Loan Bank of Boston or FHLBB. Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. PRIAC s membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of September 30, 2013, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to $2.2 billion in qualifying assets to secure FHLBB borrowings through December 31, 2013. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of September 30, 2013, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately $1.6 billion.

Credit Facilities

As of September 30, 2013, Prudential Financial and Prudential Funding maintained an aggregate of $3,750 million of unsecured committed credit facilities consisting of a $2,000 million five-year facility expiring in December 2016 that has Prudential Financial as borrower and a $1,750 million three-year facility expiring in December 2014 that has both Prudential Financial and Prudential Funding as borrowers. Each of the facilities

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

may be used for general corporate purposes, including as backup liquidity for the Company s commercial paper programs discussed above. As of September 30, 2013, there were no outstanding borrowings under either credit facility. Prudential Financial expects that it may continue to borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used to meet the Company s operating needs.

The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on the Company s credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities are conditioned on the continued satisfaction of other customary conditions, including the maintenance at all times of consolidated net worth, relating to the Company s Financial Services Businesses only, of at least $18.985 billion, which for this purpose is calculated as U.S. GAAP equity, excluding AOCI and excluding equity of noncontrolling interests. As of September 30, 2013, the consolidated net worth of the Company s Financial Services Businesses exceeded the minimum amount required to borrow under the credit facilities.

Long-term Debt

Surplus Notes

During 2011 and 2012, a captive reinsurance subsidiary of Prudential Insurance entered into agreements providing for the issuance and sale of up to $1.5 billion of ten-year fixed rate surplus notes. At September 30, 2013, $1,250 million of surplus notes were outstanding under these agreements, an increase of $250 million from December 31, 2012. Under these agreements, the subsidiary received debt securities, with a principal amounts equal to the surplus notes issued. Because valid rights of set-off exist, interest and principal payments on the surplus notes and on the debt securities are settled on a net basis, and the surplus notes are reflected in the Company s total consolidated borrowings on a net basis.

Senior Notes

Medium-term notes. Prudential Financial maintains a Medium-term Notes, Series D program under its shelf registration statement with an authorized issuance capacity of $20 billion. As of September 30, 2013, the outstanding balance of medium-term notes under this program was $12.7 billion, a decrease of $0.5 billion from December 31, 2012, due to maturities of $1.6 billion offset by $1.1 billion of issuances, as presented in the following table.

Issue Date	Principal Amount (in millions)	Interest Rate	Maturity Date

August 15, 2013	$	350	2.300%	August 15, 2018
August 15, 2013	$	350	LIBOR + 0.78%	August 15, 2018
August 15, 2013	$	350	5.100%	August 15, 2043

Retail medium-term notes. Prudential Financial maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of $5.0 billion. As of September 30, 2013, the outstanding balance of retail notes was $294 million. This represents a decrease of $613 million from December 31, 2012, primarily due to the Company s redemption of $462 million of notes during the second quarter with an average interest rate of approximately 6.0%.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Junior Subordinated Notes

Prudential Financial s junior subordinated notes outstanding are considered hybrid securities that receive enhanced equity treatment from the rating agencies. Junior subordinated notes outstanding, along with their key terms, are as follows:

Issue Date	Principal Amount (in millions)	Initial Interest Rate	Investor Type	Optional Redemption Date(1)	Interest Rate Subsequent to Optional Redemption Date	Scheduled Maturity Date	Final Maturity Date
June 2008	$ 600	8.875%	Institutional	6/15/18	LIBOR + 5.00%	6/15/38	6/15/68
August 2012	$ 1,000	5.875%	Institutional	9/15/22	LIBOR + 4.175%	n/a	9/15/42
November 2012	$ 1,500	5.625%	Institutional	6/15/23	LIBOR + 3.920%	n/a	6/15/43
December 2012	$ 575	5.750%	Retail	12/4/17	5.750%	n/a	12/15/52
March 2013	$ 710	5.700%	Retail	3/15/18	5.700%	n/a	3/15/53
March 2013	$ 500	5.200%	Institutional	3/15/24	LIBOR + 3.040%	n/a	3/15/44

(1) Represents the initial date on which the notes can be redeemed at par solely at the option of the Company, subject in the case of the 8.875% notes to compliance with the replacement capital covenant described below.

Prudential Financial has the right to defer interest payments on these notes for specified periods, typically 5-10 years without resulting in a default, during which time interest will be compounded. On or after the optional redemption dates, Prudential Financial may redeem the notes at par plus accrued and unpaid interest. Prior to those optional redemption dates, redemptions generally are subject to a make-whole price; however, the Company may redeem the notes prior to these dates at par upon the occurrence of certain events, such as, for the notes issued in 2012 and 2013, a future change in the regulatory capital treatment of the notes with respect to the Company. In June 2013, Prudential Financial redeemed all of its $920 million 9.0% Junior Subordinated Notes due 2068.

As of September 30, 2013, the Company was in compliance with all debt covenants related to its short-term and long-term debt.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents (other postretirement benefits). The health care plan is contributory; the life insurance plan is non-contributory. Substantially all of the Company s U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 62	$ 61	$ 4	$ 4
Interest cost	109	118	23	25
Expected return on plan assets	(192)	(203)	(22)	(22)
Amortization of prior service cost	(3)	3	(3)	(3)
Amortization of actuarial (gain) loss, net	23	12	14	14
Special termination benefits	0	5	0	0
Net periodic (benefit) cost	$ (1)	$ (4)	$ 16	$ 18

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
	(in millions)			
Service cost	$ 189	$ 182	$ 12	$ 11
Interest cost	328	355	67	76
Expected return on plan assets	(576)	(607)	(64)	(66)
Amortization of prior service cost	(8)	10	(9)	(9)
Amortization of actuarial (gain) loss, net	69	34	42	41
Special termination benefits	2	7	0	0
Net periodic (benefit) cost	$ 4	$ (19)	$ 48	$ 53

During the nine months ended September 30, 2013, the Company made cash contributions of $160 million to the pension plans and anticipates making an additional $20 million of cash contributions during the remainder of 2013.

11. SEGMENT INFORMATION

Segments

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

Adjusted Operating Income

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using adjusted operating income. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below. Adjusted operating income is calculated by adjusting each segment s income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the following items, which are described in greater detail below:

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

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

As discussed in Note 1, the Company recorded out of period adjustments in the second quarter of 2012 that resulted in a decrease in adjusted operating income of $61 million to the Asset Management segment and $45 million to Corporate and Other operations for the nine months ended September 30, 2012. For additional information regarding these out of period adjustments, see Notes 1 and 24 to the Company s Consolidated Financial Statements included in its 2012 Annual Report on Form 10-K.

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

Realized investment gains (losses), net

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Net gains (losses) from:				
Terminated hedges of foreign currency earnings	$ 72	$ (20)	$ 175	$ (68)
Current period yield adjustments	$ 118	$ 85	$ 323	$ 231
Principal source of earnings	$ 27	$ 30	$ 96	$ 7

Terminated Hedges of Foreign Currency Earnings. The amounts shown in the table above primarily reflect the impact of an intercompany arrangement between Corporate and Other operations and the International Insurance segment, pursuant to which the non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment s U.S. dollar equivalent earnings. Pursuant to this program, the Company s Corporate and Other operations may execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP, so the resulting profits or losses are recorded in Realized investment gains (losses), net. When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income.

Current Period Yield Adjustments. The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For derivative contracts that do not qualify for hedge accounting treatment, the periodic swap settlements, as well as certain other derivative related yield adjustments are recorded in Realized investment gains (losses), net , and are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Included in the amounts shown in the table above are gains on certain derivatives contracts that were terminated or offset in prior periods of $18 million and $16 million for the three months ended September 30, 2013 and 2012, respectively, and $54 million and $46 million for the nine months ended September 30, 2013 and 2012, respectively. Additionally, as of September 30, 2013, there was a $521 million deferred net gain related to certain derivative contracts that were terminated or offset in prior periods, primarily in the International Insurance segment.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

associated with loans originated by the Company s commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
	(in millions)			
Net gains (losses) from:				
Other trading account assets	$ 36	$ 26	$ 121	$ 59
Foreign currency exchange movements	$ 1,169	$ (347)	$ (2,856)	$ (223)
Other activities	$ 24	$ (8)	$ 136	$ 30

Other Trading Account Assets. The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the Company s statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income. Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments are excluded from adjusted operating income.

Foreign Currency Exchange Movements. The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company s capital funding strategies for its international subsidiaries, the change in value included in Asset management fees and other income is excluded from adjusted operating income. The amounts in the table above are largely driven by non-yen denominated insurance liabilities in the Company s Japanese insurance operations. The insurance liabilities are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While these non-yen denominated assets and liabilities are economically hedged, under U.S. GAAP, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in Accumulated other comprehensive income (loss), while the non-yen denominated liabilities are re-measured for foreign currency exchange rate movements, and the related change in value is recorded in earnings within Asset management fees and other income. Due to this non-economic volatility that is reflected in U.S. GAAP earnings, the change in value recorded within Asset management fee and other income is excluded from adjusted operating income.

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

In connection with disputes arising out of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc., the Company previously recorded losses related to a portion of its counterparty exposure on derivative transactions it had previously held with Lehman Brothers and its affiliates. The Company recorded estimated recoveries related to this matter of $19 million and $136 million in the three and nine months ended September 30, 2013, respectively, and $12 million in the nine months ended September 30, 2012. These

57

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

recoveries are recorded within Asset management fees and other income within the Company s Corporate and Other operations. Consistent with the exclusion of credit-related losses recorded in Realized investment gains (losses), net , the impact of this estimated recovery is excluded from adjusted operating income.

The Company records an adjustment for non-performance risk that relates to the uncollateralized portion of certain derivative contracts between a subsidiary of the Company and third parties. These adjustments are recorded within Asset management fees and other income. Consistent with the exclusion of the mark-to-market on derivatives recorded in Realized investment gains (losses), net , the impact of the non-performance risk is excluded from adjusted operating income. The net impact of the non-performance risk was to exclude from adjusted operating income net gains of $7 million and net losses of $2 million for the three months ended September 30, 2013 and 2012, respectively, and net gains of $9 million and $32 million for the nine months ended September 30, 2013 and 2012, respectively.

Related charges

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

- The portion of the amortization of deferred policy acquisition costs, value of business acquired, unearned revenue reserves and deferred sales inducements for certain products that is related to net realized investment gains and losses.

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

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

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

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are classified as trading and are carried at fair value, with realized and unrealized gains and losses reported in Asset management fees and other income. To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives are carried at fair value, with realized and unrealized gains and losses reported in Realized investment gains (losses), net. The commercial mortgage and other loans are carried at unpaid principal, net of unamortized discounts and an allowance for losses, with gains and losses on sales and changes in the valuation allowance for commercial mortgage and other loans reported in Realized investment gains (losses), net.

Adjusted operating income excludes net investment gains and losses on trading account assets supporting insurance liabilities, which is consistent with the exclusion of realized investment gains and losses with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains and losses on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

experience-rated contracts, which are reflected in Interest credited to policyholders account balances. These adjustments are in addition to the exclusion from adjusted operating income of net investment gains and losses on the related derivatives and commercial mortgage and other loans through *Realized investment gains (losses), net, and related charges and adjustments,* as discussed above. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread the Company earns on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that are expected to ultimately accrue to the contractholders.

Divested businesses

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

On July 1, 2013, the Company sold its wealth management solutions business to Envestnet Inc. Due to the existence of an ongoing contractual relationship between the Company and these operations, this disposition did not qualify for discontinued operations treatment under U.S. GAAP. As a result, the Company has classified the results of these operations, previously reported in the Asset Management segment, as a divested business and excluded the results from adjusted operating income.

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(in millions)			
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:				
Individual Annuities	$ 821	$ 207	$ 1,593	$ 735
Retirement	237	110	744	413
Asset Management	200	189	547	373
Total U.S. Retirement Solutions and Investment Management Division	1,258	506	2,884	1,521
Individual Life	148	112	426	285
Group Insurance	68	35	99	28
Total U.S. Individual Life and Group Insurance Division	216	147	525	313
International Insurance	778	782	2,505	2,057
Total International Insurance Division	778	782	2,505	2,057
Corporate Operations	(312)	(414)	(973)	(966)
Total Corporate and Other	(312)	(414)	(973)	(966)
Adjusted Operating Income before income taxes for Financial Services Businesses	1,940	1,021	4,941	2,925
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(1,319)	(1,951)	(7,322)	(1,609)
Charges related to realized investment gains (losses), net	763	648	1,533	498
Investment gains (losses) on trading account assets supporting insurance liabilities, net	103	264	(273)	502
Change in experience-rated contractholder liabilities due to asset value changes	(73)	(254)	255	(446)
Divested businesses	43	(687)	(12)	(664)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	17	(40)	18	(27)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,474	(999)	(860)	1,179
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	85	69	108	97

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,559	$ (930)	$ (752)	$ 1,276

60

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The U.S. Retirement Solutions and Investment Management Division and U.S. Individual Life and Group Insurance Division results reflect deferred policy acquisition costs as if the individual annuity business and group insurance business were stand-alone operations. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.

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

	Revenue				Total Assets	
	Three Months Ended September 30,		Nine Months Ended September 30,		September 30,	December 31,
	2013	2012	2013	2012	2013	2012
	(in millions)					
Financial Services Businesses:						
Individual Annuities	$ 1,120	$ 1,018	$ 3,307	$ 2,944	$ 156,314	$ 146,893
Retirement	1,525	1,162	4,382	3,511	169,836	168,262
Asset Management	682	641	2,007	1,687	43,878	41,909
Total U.S. Retirement Solutions and Investment Management Division	3,327	2,821	9,696	8,142	370,028	357,064
Individual Life	1,041	948	3,408	2,527	62,500	47,371
Group Insurance	1,342	1,420	4,143	4,203	37,763	38,754
Total U.S. Individual Life and Group Insurance Division	2,383	2,368	7,551	6,730	100,263	86,125
International Insurance	5,259	8,154	17,549	20,377	170,952	183,794
Total International Insurance Division	5,259	8,154	17,549	20,377	170,952	183,794
Corporate Operations	(153)	(106)	(439)	(301)	12,991	12,325
Total Corporate and Other	(153)	(106)	(439)	(301)	12,991	12,325
Total	10,816	13,237	34,357	34,948	654,234	639,308
Reconciling items:						
Realized investment gains (losses), net, and related adjustments	(1,320)	(1,954)	(7,325)	(1,613)		
Charges related to realized investment gains (losses), net	(27)	(27)	(181)	(79)		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	103	264	(273)	502		
Divested businesses	179	185	495	566		
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(3)	(65)	(79)	(78)		

Total Financial Services Businesses	9,748	11,640	26,994	34,246	654,234	639,308
Closed Block Business	1,595	1,504	4,578	4,657	68,892	69,990
Total per Unaudited Interim Consolidated Financial Statements	$ 11,343	$ 13,144	$ 31,572	$ 38,903	$ 723,126	$ 709,298

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Asset Management segment intersegment revenues	$ 151	$ 139	$ 454	$ 405

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

12. INCOME TAXES

The Company s liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (tax attributes), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The statute of limitations for the 2004 through 2006 tax years will expire in March 2014, unless extended. The statute of limitations for the 2007 through 2009 tax years will expire in December 2014, unless extended. Tax years 2010 through 2012 are still open for IRS examination.

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

The dividends received deduction (DRD) reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company s effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2012, current year results, and was adjusted to take into account the current year s equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company s taxable income before the DRD.

In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61.

Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new guidance the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. In May 2010, the IRS issued an Industry Director Directive (IDD) confirming that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. For the last several years, the revenue proposals included in the Obama Administration s budgets included a proposal that would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company s consolidated net income. These activities had no impact on the Company s results in 2012 or first nine months of 2013.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

For tax years 2007 through 2013, the Company is participating in the IRS s Compliance Assurance Program (CAP). Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management s expectation this program will shorten the time period between the filing of the Company s federal income tax returns and the IRS s completion of its examination of the returns.

Total income tax expense includes additional tax expense related to the utilization of deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar Financial Life Insurance Company, Ltd. (Prudential Gibraltar) and the Star and Edison Businesses. The balance of additional U.S. GAAP tax expense related to the utilization of opening balance sheet deferred tax assets is as follows:

	Prudential Gibraltar	Star and Edison Businesses (in millions)	Total
Opening balance sheet deferred tax assets after valuation allowance that will result in additional tax expense	$ 56	$ 678	$ 734
Additional tax expense (benefit) recognized in the Statement of Operations:			
2009	13	0	13
2010	6	0	6
2011	(29)	252	223
2012	51	333	384
Nine months 2013	15	93	108
Subtotal	56	678	734
Additional tax expense (benefit) recognized in Other Comprehensive Income	0	0	0
Unrecognized balance of additional tax expense	$ 0	$ 0	$ 0

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

13. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	As of September 30, 2013				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 13,327	$ 0	$	$ 13,327
Obligations of U.S. states and their political subdivisions	0	3,634	0		3,634
Foreign government bonds	0	82,557	1		82,558
Corporate securities	0	156,149	1,198		157,347
Asset-backed securities	0	7,096	4,090		11,186
Commercial mortgage-backed securities	0	13,380	164		13,544
Residential mortgage-backed securities	0	7,162	8		7,170
Subtotal	0	283,305	5,461		288,766
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	465	0		465
Obligations of U.S. states and their political subdivisions	0	190	0		190
Foreign government bonds	0	686	0		686
Corporate securities	0	15,739	85		15,824
Asset-backed securities	0	844	514		1,358
Commercial mortgage-backed securities	0	2,439	4		2,443
Residential mortgage-backed securities	0	1,727	2		1,729
Equity securities	1,192	215	878		2,285
All other(3)	862	8,934	8	(7,250)	2,554
Subtotal	2,054	31,239	1,491	(7,250)	27,534
Equity securities, available-for-sale	6,238	2,464	282		8,984
Commercial mortgage and other loans	0	93	19		112
Other long-term investments	57	200	1,010	8	1,275
Short-term investments	5,936	2,008	0		7,944
Cash equivalents	2,560	3,582	0		6,142
Other assets	2	248	6		256
Subtotal excluding separate account assets	16,847	323,139	8,269	(7,242)	341,013
Separate account assets(4)	49,343	203,401	22,347		275,091
Total assets	$ 66,190	$ 526,540	$ 30,616	$ (7,242)	$ 616,104
Future policy benefits	$ 0	$ 0	$ 1,928	$	$ 1,928
Other liabilities	0	8,311	6	(7,187)	1,130
Notes of consolidated VIEs	0	0	2,330		2,330

Total liabilities	$	0	$	8,311	$	4,264	$	(7,187)	$	5,388

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	As of December 31, 2012				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 17,386	$ 0	$	$ 17,386
Obligations of U.S. states and their political subdivisions	0	3,452	0		3,452
Foreign government bonds	0	88,290	0		88,290
Corporate securities	0	157,701	1,630		159,331
Asset-backed securities	0	7,633	3,703		11,336
Commercial mortgage-backed securities	0	11,813	124		11,937
Residential mortgage-backed securities	0	9,593	11		9,604
Subtotal	0	295,868	5,468		301,336
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	287	0		287
Obligations of U.S. states and their political subdivisions	0	259	0		259
Foreign government bonds	2	767	0		769
Corporate securities	0	13,609	134		13,743
Asset-backed securities	0	923	431		1,354
Commercial mortgage-backed securities	0	2,298	8		2,306
Residential mortgage-backed securities	0	2,024	2		2,026
Equity securities	1,198	181	1,098		2,477
All other(3)	664	13,371	25	(10,363)	3,697
Subtotal	1,864	33,719	1,698	(10,363)	26,918
Equity securities, available-for-sale	5,518	2,429	330		8,277
Commercial mortgage and other loans	0	114	48		162
Other long-term investments	(57)	141	1,053	246	1,383
Short-term investments	3,519	2,871	0		6,390
Cash equivalents	3,105	10,495	0		13,600
Other assets	78	109	8		195
Subtotal excluding separate account assets	14,027	345,746	8,605	(10,117)	358,261
Separate account assets(4)	39,362	192,760	21,132		253,254
Total assets	$ 53,389	$ 538,506	$ 29,737	$ (10,117)	$ 611,515
Future policy benefits	$ 0	$ 0	$ 3,348	$	$ 3,348
Other liabilities	0	8,121	0	(8,031)	90
Notes of consolidated VIEs	0	0	1,406		1,406
Total liabilities	$ 0	$ 8,121	$ 4,754	$ (8,031)	$ 4,844

(1)

Netting amounts represent cash collateral of $55 million and $2,086 million as of September 30, 2013 and December 31, 2012, respectively, and the impact of offsetting asset and liability positions held with the same counterparty.

(2) Includes Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets.

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

(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Fixed Maturity Securities The fair values of the Company s public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may over-ride the information with an internally-developed valuation. As of September 30, 2013 and December 31, 2012, over-rides on a net basis were not material. Pricing service over-rides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The fair value of private fixed maturities, which are comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. If the fair value is determined using pricing inputs that are observable in the market, the securities have been reflected within Level 2; otherwise a Level 3 classification is used.

Private fixed maturities also include debt investments in funds that pay a stated coupon and a return based upon the results of the underlying portfolios. The fair values of these securities are determined by reference to the funds net asset value (NAV). Since the NAV at which the funds trade can be observed by redemption and subscription transactions between third parties, the fair values of these investments have been reflected within Level 2 in the fair value hierarchy.

Trading Account Assets Trading account assets consist primarily of fixed maturity securities, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under Fixed Maturity Securities and below under Equity Securities and Derivative Instruments.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

The fair value of other loans held and accounted for using the fair value option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a pre-determined price, which is considered the principal exit market for these loans. The Company has evaluated the valuation inputs used for these assets, including the existence of pre-determined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

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

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

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

Derivative Instruments Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, non-performance risk, liquidity and other factors. Liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity, and other specific attributes of the underlying derivative position.

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

The majority of the Company s derivative positions are traded in the over-the-counter (OTC) derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company s policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and to-be-announced (or TBA) forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, non-performance risk, volatility and other factors.

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

The vast majority of the Company s derivative agreements are with highly rated major international financial institutions. To reflect the market s perception of its own and the counterparty s non-performance risk, the Company incorporates additional spreads over LIBOR into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

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

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

Separate Account Assets Separate Account Assets include fixed maturity securities, treasuries, equity securities and real estate investments for which values are determined consistent with similar instruments described above under Fixed Maturity Securities, Equity Securities and Other Long-Term Investments.

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

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

Future Policy Benefits The liability for future policy benefits primarily includes general account liabilities for the optional living benefit features of the Company s variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB), accounted for as embedded derivatives. The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various policyholder behavior assumptions. Since there is no observable active

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management judgment.

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

Capital market inputs and actual policyholders account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and implied volatility. In the risk neutral valuation, interest rates are used to both grow the policyholders account values and discount all projected future cash flows. The Company s discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread over LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data, such as available industry studies or market transactions such as acquisitions and reinsurance transactions. These assumptions are generally updated in the third quarter of each year unless a material change that the Company feels is indicative of a long term trend is observed in an interim period.

Transfers between Levels 1 and 2 Periodically there are transfers between Level 1 and Level 2 for foreign common stocks held in the Company s Separate Account. In certain periods, an adjustment may be made to the fair value of these assets to reflect events that occurred between the close of foreign trading markets and the close of U.S. trading markets for the respective day. During the three months ended September 30, 2013, $1.3 billion were transferred from Level 2 to Level 1. During the nine months ended September 30, 2013, $0.1 billion were transferred from Level 1 to Level 2 and $3.6 billion were transferred from Level 2 to Level 1. During the three months ended September 30, 2012, there were no transfers of separate account assets from Level 1 to Level 2 and $2.1 billion were transferred from Level 2 to Level 1. During the nine months ended September 30, 2012, $2.9 billion of separate account assets were transferred from Level 1 to Level 2 and $2.1 billion were transferred from Level 2 to Level 1.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	As of September 30, 2013		
	Internal(1)	External(2)	Total
		(in millions)	
Foreign government bonds	$ 0	$ 1	$ 1
Corporate securities	564	719	1,283
Asset-backed securities	282	4,322	4,604
Commercial mortgage-backed securities	17	151	168
Residential mortgage-backed securities	3	7	10
Equity securities	114	1,046	1,160
Commercial mortgage and other loans	19	0	19
Other long-term investments	10	1,000	1,010
Other assets	14	0	14
Subtotal excluding separate account assets(3)	1,023	7,246	8,269
Separate account assets	21,402	945	22,347
Total assets	$ 22,425	$ 8,191	$ 30,616
Future policy benefits	$ 1,928	$ 0	$ 1,928
Other liabilities	0	6	6
Notes of consolidated VIEs	0	2,330	2,330
Total liabilities	$ 1,928	$ 2,336	$ 4,264

	As of December 31, 2012		
	Internal(1)	External(2)	Total
		(in millions)	
Corporate securities	$ 889	$ 875	$ 1,764
Asset-backed securities	338	3,796	4,134
Commercial mortgage-backed securities	68	64	132
Residential mortgage-backed securities	3	10	13
Equity securities	101	1,327	1,428
Commercial mortgage and other loans	48	0	48
Other long-term investments	9	1,044	1,053
Other assets	33	0	33
Subtotal excluding separate account assets(3)	1,489	7,116	8,605
Separate account assets	20,422	710	21,132
Total assets	$ 21,911	$ 7,826	$ 29,737

Future policy benefits	$ 3,348	$ 0	$ 3,348
Notes of consolidated VIEs	0	1,406	1,406
Total liabilities	$ 3,348	$ 1,406	$ 4,754

(1) Represents valuations which could incorporate internally-derived and market inputs. See below for additional information related to internally-developed valuation for significant items in the above table.
(2) Represents unadjusted prices from independent pricing services and independent non-binding broker quotes where pricing inputs are not readily available.
(3) Includes assets classified as fixed maturities available-for-sale, trading account assets supporting insurance liabilities and other trading account assets.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities The table below represents quantitative information on significant internally-priced Level 3 assets and liabilities.

As of September 30, 2013

	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum		Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:								
Corporate securities	$ 564	Discounted cash flow	Discount rate	1.30%	-	15%	7.71%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	-	8.0X	5.96X	Increase
		Liquidation	Liquidation value	21.85%	-	100.0%	62.94%	Increase
Asset-backed securities	$ 282	Discounted cash flow	Prepayment rate(3)	2.82%	-	27.41%	9.62%	Increase
			Default rate(3)	0.49%	-	28.51%	2.82%	Decrease
			Loss severity(3)	15.96%	-	45.00%	32.76%	Decrease
			Liquidity premium	1.00%	-	2.00%	1.86%	Decrease
			Average life (years)	0.64	-	14.53	5.4	Increase
			Comparable spreads	0.17%	-	24.87%	3.47%	Decrease
			Comparable security yields	4.21%	-	12.34%	7.13%	Decrease
Liabilities:								
Future policy benefits(4)	$ 1,928	Discounted cash flow	Lapse rate(5)	0%	-	11%		Decrease
			NPR spread(6)	0.08%	-	1.32%		Decrease
			Utilization rate(7)	70%	-	94%		Increase
			Withdrawal rate(8)	86%	-	100%		Increase
			Mortality rate(9)	0%	-	13%		Decrease
			Equity volatility curve	16%	-	28%		Increase

As of December 31, 2012

	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum		Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:								
Corporate securities	$ 889	Discounted cash flow	Discount rate	1.7%	-	17.5%	9.92%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	-	8.5X	6.2X	Increase
		Cap at call price	Call price	100%	-	101%	100.24%	Increase
		Liquidation	Liquidation value	49%	-	100.0%	83.06%	Increase
Asset-backed securities	$ 338	Discounted cash flow	Prepayment rate(3)	2.8%	-	29.0%	9.84%	Increase
			Default rate(3)	0.5%	-	2.52%	0.84%	Decrease
			Loss severity(3)	35%	-	43.88%	35.76%	Decrease
			Liquidity premium	1.0%	-	2.50%	1.83%	Decrease
			Average life (years)	0.1	-	15	5.61	Increase
			Comparable spreads	0.1%	-	20%	2.81%	Decrease
			Comparable security yields	0.4%	-	15%	7.59%	Decrease
Liabilities:								
Future policy benefits(4)	$ 3,348	Discounted cash flow	Lapse rate(5)	0%	-	14%		Decrease
			NPR spread(6)	0.20%	-	1.60%		Decrease
			Utilization rate(7)	70%	-	94%		Increase

	Withdrawal rate(8)	85%	-	100%	Increase
	Mortality rate(9)	0%	-	13%	Decrease
	Equity volatility curve	19%	-	34%	Increase

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(1) Conversely, the impact of a decrease in input would have the opposite impact for the fair value as that presented in the table.
(2) EBITDA multiples represent multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.
(3) In isolation, an increase in prepayment rate or a decrease in default rate or loss severity would generally result in an increase in fair value, although the interrelationships between these inputs depend on specific market conditions.
(4) Future policy benefits primarily represent general account liabilities for the optional living benefit features of the Company s variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
(5) Base lapse rates are adjusted at the contract level based on a comparison of the benefit amount and the current policyholder account value as well as other factors, such as the applicability of any surrender charges. A dynamic lapse adjustment reduces the base lapse rate when the benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.
(6) To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuation of individual living benefit contracts in a liability position and generally not to those in a contra-liability position. In determining the NPR spread, the Company reflects the financial strength ratings of the Company s insurance subsidiaries as these are insurance liabilities and senior to debt. The additional spread over LIBOR is determined by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium.
(7) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilizing the benefit. These assumptions vary based on the product type, the age of the contractholder and the age of the contract. The impact of changes in these assumptions is highly dependent on the contract type and age of the contractholder at the time of the sale and the timing of the first lifetime income withdrawal.
(8) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. The fair value of the liability will generally increase the closer the withdrawal rate is to 100%.
(9) Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%. Based on historical experience, the Company applies a set of age and duration specific mortality rate adjustments compared to standard industry tables. A mortality improvement assumption is also incorporated into the overall mortality table.

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

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

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

Future Policy Benefits The unobservable contractholder behavior inputs related to the liability for the optional living benefit features of the Company s variable annuity contracts included in future policy benefits are generally based on emerging experience, future expectations and other data. While experience for these products is still emerging, the Company expects efficient benefit utilization and withdrawal rates to generally be correlated

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

with lapse rates. However, behavior is generally highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. The dynamic lapse adjustment assumes lower lapses when the benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Therefore, to the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, the dynamic lapse function will reduce lapse rates for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, the dynamic lapse function will lower overall lapse rates as contracts become more in-the-money.

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

Real Estate and Other Invested Assets Separate account assets include $20,559 million and $19,518 million of investments in real estate as of September 30, 2013 and December 31, 2012, respectively, that are classified as Level 3 and reported at fair value. In general, these fair value estimates are based on property appraisal reports prepared by independent real estate appraisers. Key inputs and assumptions to the appraisal process include rental income and expense amounts, related growth rates, discount rates and capitalization rates. In cases where real estate investments are made through indirect investments, fair value is generally determined by the Company s equity in net assets of the entities. The debt associated with real estate, other invested assets and the Company s equity position in entities are externally valued. Because of the subjective nature of inputs and the judgment involved in the appraisal process, real estate investments and their corresponding debt are typically included in the Level 3 classification. Key unobservable inputs to real estate valuation include capitalization rates, which ranged from 4.50% to 11.0% (6.41% weighted average) as of September 30, 2013 and 4.75% to 10.5% (6.49% weighted average) as of December 31, 2012 and discount rates, which ranged from 6.25% to 11.25% (7.83% weighted average) as of September 30, 2013 and 6.25% to 15.0% (7.92% weighted average) as of December 31, 2012. Key unobservable inputs to real estate debt valuation include yield to maturity, which ranged from 1.24% to 6.84% (4.33% weighted average) as of September 30, 2013 and 3.59% to 7.62% (4.74% weighted average) as of December 31, 2012 and market spread over base rate, which ranged from 1.75% to 2.80% (2.18% weighted average) as of September 30, 2013 and 1.67% to 4.48% (3.22% weighted average) as of December 31, 2012.

Commercial Mortgage Loans Separate account assets include $791 million and $833 million of commercial mortgage loans as of September 30, 2013 and December 31, 2012 respectively that are classified as Level 3 and reported at fair value. Commercial mortgage loans are primarily valued internally using discounted cash flow techniques, as described further under Fair Value of Financial Instruments. The primary unobservable input used is the spread to discount cash flows, which ranged from 1.50% to 2.06% (1.63% weighted average) as of September 30, 2013 and 1.65% to 4.15% (1.87% weighted average) as of December 31, 2012. In isolation, an increase (decrease) in the value of this input would result in a lower (higher) fair value measurement.

Valuation Process for Fair Value Measurements Categorized within Level 3 The Company has established an internal control infrastructure over the valuation of financial instruments that requires ongoing oversight by its various Business Groups. These management control functions are segregated from the trading

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

and investing functions. For invested assets, the Company has established oversight teams, often in the form of Pricing Committees within each asset management group. The teams, which typically include representation from investment, accounting, operations, legal and other disciplines are responsible for overseeing and monitoring the pricing of the Company s investments and performing periodic due diligence reviews of independent pricing services. An actuarial valuation team oversees the valuation of optional living benefit features of the Company s variable annuity contracts.

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30, 2013 Fixed Maturities Available-For-Sale (in millions)						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
Fair Value, beginning of period	$ 0	$ 0	$ 13	$ 1,383	$ 4,009	$ 243	$ 11
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(11)	9	35	0
Included in other comprehensive income (loss)	0	0	0	(20)	(4)	(16)	0
Net investment income	0	0	0	(6)	7	0	0
Purchases	0	0	1	91	515	91	0
Sales	0	0	0	(12)	(80)	(34)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	(1)	(158)	(251)	(7)	(3)
Foreign currency translation	0	0	0	15	13	1	0
Other(1)	0	0	0	0	(84)	0	0
Transfers into Level 3(2)	0	0	0	69	2	0	0
Transfers out of Level 3(2)	0	0	(12)	(153)	(46)	(149)	0
Fair Value, end of period	$ 0	$ 0	$ 1	$ 1,198	$ 4,090	$ 164	$ 8
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 7	$ 0	$ 0

	Three Months Ended September 30, 2013 Trading Account Assets (in millions)						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
Fair Value, beginning of period	$ 0	$ 90	$ 424	$ 54	$ 2	$ 884	$ 14
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	(3)
Asset management fees and other income	0	(2)	(1)	(1)	0	5	1
Net investment income	0	0	2	0	0	0	0
Purchases	0	17	156	0	0	7	0
Sales	0	(6)	(1)	0	0	(5)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(8)	(44)	0	0	(30)	(4)

Foreign currency translation	0	0	1	0	0	17	0
Other(1)	0	0	(19)	0	0	0	0
Transfers into Level 3(2)	0	0	2	0	0	0	0
Transfers out of Level 3(2)	0	(6)	(6)	(49)	0	0	0
Fair Value, end of period	$ 0	$ 85	$ 514	$ 4	$ 2	$ 878	$ 8
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (2)
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9	$ 1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2013			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	$ 292	$ 21	$ 1,082	$ 6
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	10	(2)	(1)	0
Asset management fees and other income	0	0	19	0
Included in other comprehensive income (loss)	2	0	0	0
Net investment income	0	0	1	0
Purchases	8	0	27	0
Sales	(38)	0	0	0
Issuances	0	0	0	0
Settlements	0	0	(23)	0
Foreign currency translation	7	0	(27)	0
Other(1)	0	0	(68)	0
Transfers into Level 3(2)	1	0	0	0
Transfers out of Level 3(2)	0	0	0	0
Fair Value, end of period	$ 282	$ 19	$ 1,010	$ 6
Unrealized gains (losses) for assets still held(3):				
Included in earnings:				
Asset management fees and other income	$ 0	$ 0	$ 20	$ 0

	Three Months Ended September 30, 2013			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)			
Fair Value, beginning of period	$ 21,672	$ (365)	$ (6)	$ (2,055)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	(1,351)	1	30
Interest credited to policyholders account balances	736	0	0	0
Purchases	528	0	0	0
Sales	(166)	0	0	0
Issuances	0	(212)	0	(292)
Settlements	(372)	0	0	(13)
Other(1)	0	0	(1)	0
Transfers into Level 3(2)	3	0	0	0
Transfers out of Level 3(2)	(54)	0	0	0
Fair Value, end of period	$ 22,347	$ (1,928)	$ (6)	$ (2,330)

Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ (1,359)	$ 0	$ 29
Interest credited to policyholders account	$ 464	$ 0	$ 0	$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2013 Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
				(in millions)			
Fair Value, beginning of period	$ 0	$ 0	$ 0	$ 1,630	$ 3,703	$ 124	$ 11
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(5)	20	36	0
Included in other comprehensive income (loss)	0	0	(1)	(8)	(5)	(17)	0
Net investment income	0	0	0	(4)	28	0	0
Purchases	0	0	5	393	1,898	328	0
Sales	0	0	(1)	(72)	(306)	(37)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	(3)	(555)	(1,036)	(38)	(3)
Foreign currency translation	0	0	0	(96)	(92)	(8)	0
Other(1)	0	0	0	0	(84)	0	0
Transfers into Level 3(2)	0	0	13	302	10	0	0
Transfers out of Level 3(2)	0	0	(12)	(387)	(46)	(224)	0
Fair Value, end of period	$ 0	$ 0	$ 1	$ 1,198	$ 4,090	$ 164	$ 8
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 12	$ 0	$ 0

	Nine Months Ended September 30, 2013 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
				(in millions)			
Fair Value, beginning of period	$ 0	$ 134	$ 430	$ 8	$ 2	$ 1,098	$ 25
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	(1)	(15)
Asset management fees and other income	0	(3)	7	(1)	0	45	2
Net investment income	0	0	4	0	0	0	0
Purchases	0	20	321	76	0	10	0
Sales	0	(11)	(2)	(1)	0	(108)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(48)	(216)	(1)	0	(43)	(4)
Foreign currency translation	0	0	(7)	(1)	0	(123)	0
Other(1)	0	0	(19)	0	0	0	0
Transfers into Level 3(2)	0	3	4	0	0	0	0
Transfers out of Level 3(2)	0	(10)	(8)	(76)	0	0	0
Fair Value, end of period	$ 0	$ 85	$ 514	$ 4	$ 2	$ 878	$ 8

Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (15)
Asset management fees and other income	$ 0	$ (3)	$ 8	$ 1	$ 0	$ 41	$ 2

78

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2013			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	$ 330	$ 48	$ 1,053	$ 8
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	11	0	0	(2)
Asset management fees and other income	0	0	103	0
Included in other comprehensive income (loss)	45	0	0	0
Net investment income	0	0	(1)	0
Purchases	20	0	86	0
Sales	(61)	0	0	0
Issuances	0	0	6	0
Settlements	(3)	(29)	(121)	0
Foreign currency translation	(44)	0	(8)	0
Other(1)	(18)	0	(108)	0
Transfers into Level 3(2)	2	0	0	0
Transfers out of Level 3(2)	0	0	0	0
Fair Value, end of period	$ 282	$ 19	$ 1,010	$ 6
Unrealized gains (losses) for assets still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ (3)	$ (2)
Asset management fees and other income	$ 0	$ 0	$ 103	$ 0

	Nine Months Ended September 30, 2013			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)			
Fair Value, beginning of period	$ 21,132	$ (3,348)	$ 0	$ (1,406)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	2,037	(3)	32
Interest credited to policyholders account balances	1,884	0	0	0
Purchases	1,309	0	0	0
Sales	(483)	0	0	0
Issuances	0	(619)	0	(932)
Settlements	(1,593)	0	0	(24)
Foreign currency translation	0	2	0	0
Other(1)	140	0	(3)	0
Transfers into Level 3(2)	62	0	0	0
Transfers out of Level 3(2)	(104)	0	0	0
Fair Value, end of period	$ 22,347	$ (1,928)	$ (6)	$ (2,330)

Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 1,970	$ (3)	$ 32
Interest credited to policyholders account	$ 1,135	$ 0	$ 0	$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2012 Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
	(in millions)						
Fair Value, beginning of period	$ 66	$ 0	$ 21	$ 1,635	$ 3,069	$ 186	$ 13
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	10	2	0
Included in other comprehensive income (loss)	0	0	0	46	22	7	0
Net investment income	0	0	0	2	7	1	0
Purchases	0	0	0	100	793	10	0
Sales	0	0	0	(91)	(381)	(2)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	0	(42)	(105)	(7)	(2)
Foreign currency translation	0	0	0	3	2	0	0
Other(1)	0	0	(5)	5	0	0	0
Transfers into Level 3(2)	0	0	0	59	35	0	0
Transfers out of Level 3(2)	0	0	(13)	(41)	(253)	(14)	0
Fair Value, end of period	$ 66	$ 0	$ 3	$ 1,676	$ 3,199	$ 183	$ 11
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 3	$ 0	$ 0

	Three Months Ended September 30, 2012 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	$ 9	$ 140	$ 444	$ 68	$ 3	$ 1,241	$ 45
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	1	(16)
Asset management fees and other income	0	0	8	1	0	20	1
Net investment income	0	0	1	0	0	0	0
Purchases	0	(1)	0	2	0	0	0
Sales	0	(2)	(6)	(2)	0	(2)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(5)	(21)	(2)	0	(32)	2
Foreign currency translation	0	0	0	0	0	7	0
Other(1)	0	0	1	0	(1)	0	0
Transfers into Level 3(2)	0	2	3	43	0	33	0
Transfers out of Level 3(2)	0	0	(31)	(17)	0	0	0
Fair Value, end of period	$ 9	$ 134	$ 399	$ 93	$ 2	$ 1,268	$ 32

Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (16)
Asset management fees and other income	$ 0	$ (3)	$ 7	$ 0	$ 0	$ 22	$ 1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2012			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Short-term Investments
	(in millions)			
Fair Value, beginning of period	$ 355	$ 37	$ 1,042	$ 5
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	(1)	2	3	(5)
Asset management fees and other income	0	0	5	0
Included in other comprehensive income (loss)	(6)	0	0	0
Net investment income	0	0	(1)	0
Purchases	6	0	44	0
Sales	(9)	0	(3)	0
Issuances	0	0	0	0
Settlements	0	29	(45)	0
Foreign currency translation	1	0	0	0
Other(1)	0	0	11	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	0	0	(42)	0
Fair Value, end of period	$ 346	$ 68	$ 1,014	$ 0
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 2	$ 0	$ (5)
Asset management fees and other income	$ 0	$ 0	$ 20	$ 0

	Three Months Ended September 30, 2012				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)				
Fair Value, beginning of period	$ 8	$ 20,698	$ (3,054)	$ (2)	$ (296)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	(408)	(5)	(3)
Interest credited to policyholders account balances	0	303	0	0	0
Purchases	0	310	0	0	0
Sales	0	(184)	0	0	0
Issuances	0	0	(176)	0	(390)
Settlements	0	(592)	0	6	295
Transfers into Level 3(2)	0	29	0	0	0
Transfers out of Level 3(2)	0	(225)	0	0	0
Fair Value, end of period	$ 8	$ 20,339	$ (3,638)	$ (1)	$ (394)

Unrealized gains (losses) for assets/liabilities still held(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ (448)	$ (6)	$ 0
Interest credited to policyholders account	$ 0	$ 146	$ 0	$ 0	$ 0

81

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2012 Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate (in millions)	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
Fair Value, beginning of period	$ 66	$ 0	$ 25	$ 1,450	$ 2,528	$ 145	$ 16
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(25)	18	2	0
Included in other comprehensive income (loss)	0	0	0	176	52	18	0
Net investment income	0	0	0	6	22	(2)	1
Purchases	0	10	0	321	1,964	43	0
Sales	0	0	0	(130)	(425)	(2)	0
Issuances	0	0	0	0	0	0	0
Settlements	(2)	0	0	(228)	(450)	(11)	(6)
Foreign currency translation	0	0	0	(3)	(8)	(1)	0
Other(1)	2	0	(5)	3	0	0	0
Transfers into Level 3(2)	0	0	7	276	35	37	0
Transfers out of Level 3(2)	0	(10)	(24)	(170)	(537)	(46)	0
Fair Value, end of period	$ 66	$ 0	$ 3	$ 1,676	$ 3,199	$ 183	$ 11
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ (1)	$ 9	$ 0	$ 0

	Nine Months Ended September 30, 2012 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed (in millions)	Residential Mortgage-Backed	Equity	All Other Activity
Fair Value, beginning of period	$ 9	$ 148	$ 416	$ 35	$ 4	$ 1,296	$ 93
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	(65)
Asset management fees and other income	0	(5)	13	1	1	54	1
Net investment income	0	0	5	1	0	0	0
Purchases	0	17	128	18	0	13	0
Sales	0	(10)	(9)	(4)	(1)	(31)	0
Issuances	0	0	0	0	0	0	0
Settlements	(2)	(15)	(90)	(3)	(1)	(88)	6
Foreign currency translation	0	0	(1)	0	0	(11)	0
Other(1)	2	(2)	1	0	(1)	3	(3)
Transfers into Level 3(2)	0	5	3	82	0	33	0
Transfers out of Level 3(2)	0	(4)	(67)	(37)	0	(1)	0
Fair Value, end of period	$ 9	$ 134	$ 399	$ 93	$ 2	$ 1,268	$ 32

Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ (1)	$ (65)
Asset management fees and other income	$ 0	$ (10)	$ 11	$ 1	$ 0	$ 54	$ 1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2012			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Short-term Investments
		(in millions)		
Fair Value, beginning of period	$ 360	$ 86	$ 1,110	$ 0
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	1	2	6	(9)
Asset management fees and other income	0	0	73	0
Included in other comprehensive income (loss)	21	0	0	0
Net investment income	0	0	5	0
Purchases	68	0	159	9
Sales	(17)	0	(23)	0
Issuances	0	0	0	0
Settlements	0	(20)	(261)	0
Foreign currency translation	(2)	0	2	0
Other(1)	0	0	7	0
Transfers into Level 3(2)	5	0	0	0
Transfers out of Level 3(2)	(90)	0	(64)	0
Fair Value, end of period	$ 346	$ 68	$ 1,014	$ 0
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 1	$ 1	$ (9)
Asset management fees and other income	$ 0	$ 0	$ 40	$ 0

	Nine Months Ended September 30, 2012				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
			(in millions)		
Fair Value, beginning of period	$ 9	$ 19,358	$ (2,886)	$ (3)	$ (282)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	(255)	(22)	(3)
Asset management fees and other income	2	0	0	0	0
Interest credited to policyholders account balances	0	1,518	0	0	0
Purchases	0	2,154	0	0	0
Sales	(3)	(647)	0	0	0
Issuances	0	0	(497)	0	(401)
Settlements	0	(1,617)	0	24	295
Other(1)	0	0	0	0	(3)
Transfers into Level 3(2)	0	245	0	0	0
Transfers out of Level 3(2)	0	(672)	0	0	0
Fair Value, end of period	$ 8	$ 20,339	$ (3,638)	$ (1)	$ (394)

Unrealized gains (losses) for assets/liabilities still held(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ (340)	$ (22)	$ (3)
Asset management fees and other income	$ 2	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders account	$ 0	$ 902	$ 0	$ 0	$ 0

83

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

For the nine months ended September 30, 2012, the majority of the Equity Securities Available-for-Sale transfers out of Level 3 were due to the determination that the pricing inputs for certain equity securities did not have a material liquidity discount and therefore, should be classified as Level 1, not Level 3.

Derivative Fair Value Information

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

	As of September 30, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Derivative assets:					
Interest Rate	$ 4	$ 7,185	$ 7	$	$ 7,196
Currency	0	511	0		511
Credit	0	6	0		6
Currency/Interest Rate	0	457	0		457
Equity	50	482	1		533
Netting(1)				(7,242)	(7,242)
Total derivative assets	$ 54	$ 8,641	$ 8	$ (7,242)	$ 1,461
Derivative liabilities:					

Interest Rate	$ 1	$ 7,173	$ 6	$	$ 7,180
Currency	0	199	0		199
Credit	0	66	0		66
Currency/Interest Rate	0	649	0		649
Equity	0	200	0		200
Netting(1)				(7,187)	(7,187)
Total derivative liabilities	$ 1	$ 8,287	$ 6	$ (7,187)	$ 1,107

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	As of December 31, 2012				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Derivative assets:					
Interest Rate	$ 11	$ 11,675	$ 5	$	$ 11,691
Currency	0	432	0		432
Credit	0	19	0		19
Currency/Interest Rate	0	450	0		450
Equity	63	518	19		600
Netting(1)				(10,117)	(10,117)
Total derivative assets	$ 74	$ 13,094	$ 24	$ (10,117)	$ 3,075
Derivative liabilities:					
Interest Rate	$ 11	$ 6,783	$ 2	$	$ 6,796
Currency	0	517	0		517
Credit	0	84	0		84
Currency/Interest Rate	0	578	0		578
Equity	165	198	0		363
Netting(1)				(8,031)	(8,031)
Total derivative liabilities	$ 176	$ 8,160	$ 2	$ (8,031)	$ 307

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Changes in Level 3 derivative assets and liabilities The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the three and nine months ended September 30, 2013, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2013, attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2013.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Derivative Assets - Equity	Derivative Assets - Credit	Derivative Assets - Interest Rate	Derivative Assets - Equity	Derivative Assets - Credit	Derivative Assets - Interest Rate
	(in millions)					
Fair Value, beginning of period	$ 8	$ 0	$ 2	$ 19	$ 0	$ 3
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	(3)	0	(1)	(14)	0	(2)
Asset management fees and other income	0	0	0	0	0	0
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Issuances	0	0	0	0	0	0
Settlements	(4)	0	0	(4)	0	0
Transfers into Level 3(1)	0	0	0	0	0	0
Transfers out of Level 3(1)	0	0	0	0	0	0
Fair Value, end of period	$ 1	$ 0	$ 1	$ 1	$ 0	$ 1
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:						
Included in earnings:						
Realized investment gains (losses), net	$ (3)	$ 0	$ (1)	$ (14)	$ 0	$ (2)
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Derivative Assets - Equity	Derivative Assets - Credit	Derivative Assets - Interest Rate	Derivative Assets - Equity	Derivative Assets - Credit	Derivative Assets - Interest Rate
	(in millions)					
Fair Value, beginning of period	$ 40	$ 0	$ 2	$ 83	$ 1	$ (1)
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	(15)	0	5	(63)	(1)	8
Asset management fees and other income	0	0	0	0	0	0
Purchases	1	0	0	6	0	0
Sales	0	0	0	0	0	0
Issuances	0	0	0	0	0	0
Settlements	0	0	0	0	0	0
Transfers into Level 3(1)	0	0	0	0	0	0
Transfers out of Level 3(1)	0	0	0	0	0	0
Fair Value, end of period	$ 26	$ 0	$ 7	$ 26	$ 0	$ 7
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:						
Included in earnings:						
Realized investment gains (losses), net	$ (15)	$ 0	$ 5	$ (63)	$ (1)	$ 8
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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

Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. Commercial mortgage loan reserve adjustments of $0 million and $2 million in net gains were recorded for the three and nine months ended September 30, 2012, respectively. The reserve adjustments were based on discounted cash flows utilizing market rates and were classified as Level 3 in the hierarchy. There were no nonrecurring fair value reserve adjustments for the three and nine months ended September 30, 2013.

For real estate and property and equipment related investments, no impairments were recorded for the three months ended September 30, 2013. Impairments of $20 million were recorded for the three months ended September 30, 2012. There were $0 million and $91 million of impairments recorded for the nine months ended September 30, 2013 and 2012, respectively, for real estate and property and equipment related investments classified as Level 3 in the valuation hierarchy. These impairments were based primarily on appraised value. For certain cost method investments, impairments of $6 million and $1 million were recorded for the three months ended September 30, 2013 and 2012, respectively, and $15 million and $3 million for the nine months ended September 30, 2013 and 2012, respectively., The methodologies utilized were primarily discounted estimated future cash flows and, where appropriate, valuations provided by the general partners taking into consideration deal and management fee expenses. These cost method investments are classified as Level 3 in the valuation hierarchy. For mortgage servicing rights, impairment recoveries which resulted in a gain of $6 million and $5 million were recorded for the three months and nine months ended September 30, 2013. Similarly an impairment of $5 million and $12 million were recorded for the three months and nine months ended 2012, for mortgage servicing rights. Mortgage servicing rights are valued based on internal models and classified as Level 3 in the hierarchy.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

There were no impairments related to intangible assets for the three and nine months ended September 30, 2013. An impairment of $29 million was recorded for the three and nine months ended September 30, 2012 related to the write-off of an intangible asset resulting from an acquired business. The method utilized was primarily discounted cash flows based on assumptions and inputs specific to the Company, and are therefore classified as Level 3 in the hierarchy.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Assets:				
Commercial mortgage loans:				
Changes in instrument-specific credit risk	$ 0	$ 0	$ 0	$ (1)
Other changes in fair value	$ 1	$ 0	$ 3	$ 0
Other long-term investments:				
Changes in fair value	$ 8	$ 18	$ 39	$ 30
Liabilities:				
Notes issued by consolidated variable interest entities:				
Changes in fair value	$ (30)	$ 2	$ (32)	$ (1)

Changes in fair value are reflected in Realized investment gains (losses), net for commercial mortgage loans and Asset management fees and other income for other long-term investments and other liabilities. Changes in fair value due to instrument-specific credit risk are estimated based on changes in credit spreads and quality ratings for the period reported.

Interest income on commercial mortgage loans is included in net investment income. The Company recorded $4 million for both the three months ended September 30, 2013 and 2012, respectively, and $9 million for both the nine months ended September 30, 2013 and 2012, respectively, of interest income on fair value option loans. Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan.

The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were $117 million and $109 million, respectively, as of September 30, 2013, and $162 million and $156 million, respectively, as of December 31, 2012. As of September 30, 2013, there were no loans in nonaccrual status and none of the loans are more than 90 days past due and still accruing.

The fair value of other long-term investments was $508 million as of September 30, 2013 and $465 million as of December 31, 2012.

The fair value and aggregate contractual principal amounts of limited recourse notes issued by consolidated variable interest entities, for which the fair value option has been elected, were $2,330 million and $2,364 million, respectively, as of September 30, 2013, and $1,406 million and $1,422 million, respectively as of December 31, 2012. Interest expense recorded for these liabilities was $29 million and $69 million, respectively, for the three and nine months ended September 30, 2013, respectively.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Fair Value of Financial Instruments

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

	September 30, 2013					December 31, 2012	
	Fair Value				Carrying Amount(1)	Fair Value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Total	Total	Total
				(in millions)			
Assets:							
Fixed maturities, held-to-maturity	$ 0	$ 2,256	$ 1,616	$ 3,872	$ 3,629	$ 4,511	$ 4,268
Commercial mortgage and other loans	0	626	40,375	41,001	39,385	39,554	36,570
Policy loans	0	0	14,219	14,219	11,863	14,592	11,575
Short-term investments	0	553	0	553	553	57	57
Cash and cash equivalents	4,431	2,077	0	6,508	6,508	4,500	4,500
Accrued investment income	0	3,157	0	3,157	3,157	3,127	3,127
Other assets	59	2,252	322	2,633	2,633	2,601	2,601
Total assets	$ 4,490	$ 10,921	$ 56,532	$ 71,943	$ 67,728	$ 68,942	$ 62,698
Liabilities:							
Policyholders account balances -investment contracts	$ 0	$ 39,648	$ 58,177	$ 97,825	$ 96,360	$ 104,200	$ 101,232
Securities sold under agreements to repurchase	0	7,158	0	7,158	7,158	5,818	5,818
Cash collateral for loaned securities	0	5,955	0	5,955	5,955	3,941	3,941
Short-term debt	0	3,181	0	3,181	3,118	2,506	2,484
Long-term debt	1,106	19,469	4,943	25,518	23,642	27,497	24,729
Notes of consolidated VIEs	0	0	80	80	93	149	171
Other liabilities	0	5,554	337	5,891	5,891	6,356	6,356
Separate account liabilities -investment contracts	0	81,028	22,052	103,080	103,080	96,561	96,561
Total liabilities	$ 1,106	$ 161,993	$ 85,589	$ 248,688	$ 245,297	$ 247,028	$ 241,292

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

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

Fixed Maturities, Held-to-Maturity

The fair values of public fixed maturity securities are generally based on prices from third-party pricing services, which are reviewed to validate reasonableness. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities; this information is either not available or not reliable. For these public fixed maturity securities, the fair value is based on indicative broker quotes, if available, or determined using a discounted cash flow model or internally-developed values. For private fixed maturities, fair

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

value is determined using a discounted cash flow model. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

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

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

Policy Loans

The fair value of U.S. insurance policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayment patterns, while Japanese insurance policy loans use the risk-free proxy based on the yen LIBOR. For group corporate-, bank- and trust-owned life insurance contracts and group universal life contracts, the fair value of the policy loans is the amount due, excluding interest, as of the reporting date.

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

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

Policyholders Account Balances Investment Contracts

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products, the fair value is the market value of the assets supporting the liabilities.

Securities Sold Under Agreements to Repurchase

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

Cash Collateral for Loaned Securities

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

Debt

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

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

Other Liabilities

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

Separate Account Liabilities Investment Contracts

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

14. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

Interest Rate Contracts

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

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

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

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

Equity Contracts

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

Foreign Exchange Contracts

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Credit Contracts

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

Other Contracts

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

The table below provides a summary of the gross notional amount and fair value of derivatives contracts used in a non-broker-dealer capacity by the primary underlying, excluding embedded derivatives which are recorded with the associated host. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral held with the same counterparty. This netting impact results in total derivative assets of $1,461 million and $3,075 million as of September 30, 2013 and December 31, 2012, respectively, and total derivative liabilities of $1,107 million and $307 million as of September 30, 2013 and December 31, 2012, respectively, reflected in the Unaudited Interim Consolidated Statement of Financial Position.

	September 30, 2013			December 31, 2012		
		Gross Fair Value			Gross Fair Value	
Primary Underlying/ Instrument Type	**Notional**	**Assets**	**Liabilities**	**Notional**	**Assets**	**Liabilities**
			(in millions)			
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 2,475	$ 9	$ (265)	$ 3,374	$ 26	$ (396)
Foreign Currency						
Foreign Currency Forwards	579	6	(60)	639	1	(35)
Currency/Interest Rate						
Foreign Currency Swaps	7,879	132	(389)	6,373	128	(342)
Total Qualifying Derivatives	$ 10,933	$ 147	$ (714)	$ 10,386	$ 155	$ (773)

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Primary Underlying/ Instrument Type	September 30, 2013 Notional	September 30, 2013 Gross Fair Value Assets	September 30, 2013 Gross Fair Value Liabilities	December 31, 2012 Notional	December 31, 2012 Gross Fair Value Assets	December 31, 2012 Gross Fair Value Liabilities
	(in millions)					
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 112,333	$ 4,565	$ (4,490)	$ 108,581	$ 7,779	$ (3,301)
Interest Rate Futures	6,116	3	(1)	6,749	11	(12)
Interest Rate Options	25,181	480	(245)	25,250	895	(141)
Interest Rate Forwards	1,304	9	0	660	0	0
Foreign Currency						
Foreign Currency Forwards	13,925	497	(129)	14,638	371	(397)
Foreign Currency Options	77	8	0	92	13	0
Currency/Interest Rate						
Foreign Currency Swaps	6,609	270	(211)	5,304	239	(152)
Credit						
Credit Default Swaps	1,992	6	(65)	3,250	19	(84)
Equity						
Equity Futures	601	3	0	6,518	0	(165)
Equity Options	51,600	492	(25)	42,757	603	(40)
Total Return Swaps	10,760	81	(181)	5,779	8	(158)
Synthetic GICs	71,417	7	0	64,359	6	0
Total Non-Qualifying Derivatives(1)	$ 301,915	$ 6,421	$ (5,347)	$ 283,937	$ 9,944	$ (4,450)
Total Derivatives(2)	$ 312,848	$ 6,568	$ (6,061)	$ 294,323	$ 10,099	$ (5,223)

(1) Based on notional amounts, most of the Company s derivatives do not qualify for hedge accounting as follows: i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income, ii) derivatives that are utilized as macro hedges of the Company s exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules, and iii) synthetic guaranteed investment contracts (GIC s), which are product standalone derivatives do not qualify as hedging instruments under hedge accounting rules.

(2) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a net liability of $2,030 million as of September 30, 2013 and a net liability of $3,438 million as of December 31, 2012, included in Future policy benefits and Fixed maturities, available-for-sale.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Offsetting Assets and Liabilities

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

	September 30, 2013				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral	Net Amount
			(in millions)		
Offsetting of Financial Assets:					
Derivatives	$ 8,671	$ (7,242)	$ 1,429	$ (1,238)	$ 191
Securities purchased under agreement to resell	750	0	750	(750)	0
Total Assets	$ 9,421	$ (7,242)	$ 2,179	$ (1,988)	$ 191
Offsetting of Financial Liabilities:					
Derivatives	$ 8,288	$ (7,187)	$ 1,101	$ (1,251)	$ (150)
Securities sold under agreement to repurchase	7,158	0	7,158	(7,158)	0
Total Liabilities	$ 15,446	$ (7,187)	$ 8,259	$ (8,409)	$ (150)

	December 31, 2012				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral	Net Amount
			(in millions)		
Offsetting of Financial Assets:					
Derivatives	$ 13,167	$ (10,117)	$ 3,050	$ (2,891)	$ 159
Securities purchased under agreement to resell	990	0	990	(990)	0
Total Assets	$ 14,157	$ (10,117)	$ 4,040	$ (3,881)	$ 159
Offsetting of Financial Liabilities:					

Derivatives	$ 8,329	$ (8,031)	$ 298	$ (63)	$ 235
Securities sold under agreement to repurchase	5,818	0	5,818	(5,818)	0
Total Liabilities	$ 14,147	$ (8,031)	$ 6,116	$ (5,881)	$ 235

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see Credit Risk below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company s accounting policy for securities repurchase and resale agreements, see Note 2 to the Company s Consolidated Financial Statements included in its 2012 Annual Report on Form 10-K.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Cash Flow, Fair Value and Net Investment Hedges

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

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

	Three Months Ended September 30, 2013					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 8	$ (17)	$ 0	$ 0	$ 6	$ 0
Currency	(6)	0	0	0	0	0
Total fair value hedges	2	(17)	0	0	6	0
Cash flow hedges						
Interest Rate	0	0	0	(6)	0	3
Currency/Interest Rate	0	1	(24)	0	0	(260)
Total cash flow hedges	0	1	(24)	(6)	0	(257)
Net investment hedges						
Currency(2)	0	0	(4)	0	0	0
Currency/Interest Rate	0	0	0	0	0	(3)
Total net investment hedges	0	0	(4)	0	0	(3)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(540)	0	0	0	0	0
Currency	62	0	0	0	0	0

Currency/Interest Rate	(215)	0	(2)	0	0	0
Credit	(1)	0	0	0	0	0
Equity	(706)	0	0	0	0	0
Embedded Derivatives	(1,322)	0	0	0	0	0
Total non-qualifying hedges	(2,722)	0	(2)	0	0	0
Total	$ (2,720)	$ (16)	$ (30)	$ (6)	$ 6	$ (260)

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2013					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 80	$ (56)	$ 0	$ 0	$ 17	$ 0
Currency	(54)	0	0	0	0	0
Total fair value hedges	26	(56)	0	0	17	0
Cash flow hedges						
Interest Rate	0	0	0	(17)	0	20
Currency/Interest Rate	0	0	(60)	0	0	(118)
Total cash flow hedges	0	0	(60)	(17)	0	(98)
Net investment hedges						
Currency(2)	0	0	(4)	0	0	7
Currency/Interest Rate	0	0	0	0	0	154
Total net investment hedges	0	0	(4)	0	0	161
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(4,071)	0	0	0	0	0
Currency	(513)	0	0	0	0	0
Currency/Interest Rate	84	0	0	0	0	0
Credit	(11)	0	0	0	0	0
Equity	(2,515)	0	0	0	0	0
Embedded Derivatives	2,025	0	0	0	0	0
Total non-qualifying hedges	(5,001)	0	0	0	0	0
Total	$ (4,975)	$ (56)	$ (64)	$ (17)	$ 17	$ 63

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2012					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 6	$ (23)	$ 0	$ 1	$ 5	$ 0
Currency	0	(1)	0	0	0	0
Total fair value hedges	6	(24)	0	1	5	0
Cash flow hedges						
Interest Rate	0	0	0	(5)	0	2
Currency/Interest Rate	0	(1)	(3)	0	0	(119)
Total cash flow hedges	0	(1)	(3)	(5)	0	(117)
Net investment hedges						
Currency(2)	0	0	0	0	0	(6)
Currency/Interest Rate	0	0	0	0	0	(10)
Total net investment hedges	0	0	0	0	0	(16)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	86	0	0	0	0	0
Currency	(119)	0	0	0	0	0
Currency/Interest Rate	(19)	0	0	0	0	0
Credit	(8)	0	0	0	0	0
Equity	(983)	0	0	0	0	0
Embedded Derivatives	(418)	0	0	0	0	0
Total non-qualifying hedges	(1,461)	0	0	0	0	0
Total	$ (1,455)	$ (25)	$ (3)	$ (4)	$ 5	$ (133)

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2012					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ (6)	$ (71)	$ 0	$ 4	$ 26	$ 0
Currency	2	(3)	0	0	0	0
Total fair value hedges	(4)	(74)	0	4	26	0
Cash flow hedges						
Interest Rate	0	0	0	(14)	0	8
Currency/Interest Rate	0	(4)	(5)	0	0	(47)
Total cash flow hedges	0	(4)	(5)	(14)	0	(39)