TEMPUR PEDIC INTERNATIONAL INC
Form 4
March 08, 2010

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Judge Paul R

(Last) (First) (Middle)

88 THE PANORAMIC, 152 GOSVENOR ROAD

(Street)

LONDON, X0 SW1V3JL

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TEMPUR PEDIC INTERNATIONAL INC [TPX]

3. Date of Earliest Transaction (Month/Day/Year)
03/04/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 03/04/2010 | | M | | 25,000 | A | $ 13.94 | 25,000 | D | |
| Common Stock | 03/04/2010 | | S | | 25,000 | D | $ 29.32 (1) | 0 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8 D S (I |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | |
| Stock Option | $ 13.94 | 03/04/2010 | | M | | 25,000 | | (2) | 07/12/2014 | Common Stock | 25,000 | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| Judge Paul R<br>88 THE PANORAMIC<br>152 GOSVENOR ROAD<br>LONDON, X0 SW1V3JL | X | | | |

# Signatures

| /s/ Bhaskar Rao | 03/08/2010 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** This price is the weighted average sale price for the transactions on this line. The price for the transactions reported on this line range from $29.29 to $29.42. The reporting person undertakes to provide, upon request by the staff of the Securities and Exchange Commission, the issuer, or a security holder of the issuer, full information regarding the number of shares sold at each seperate price.

**(2)** These options vested and became exercisable in a series of sixteen successive quarterly installments, with the first installment becoming exercisable on September 30, 2004.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

1,623

3,586

3,194

Reconciling Items:

Realized investment gains (losses), net, and related adjustments(1)
(60
)

(202
)

1,602

(153
)
Charges related to realized investment gains (losses), net(2)
346

(71
)

(265
)

(128
)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)
(220
)

225

(137
)

326

Change in experience-rated contractholder liabilities due to asset value changes(4)
234

(189
)

37

(232
)
Divested businesses:

Closed Block division(5)
52

0

30

0

Other divested businesses(6)
(109
)

47

(34
)

120

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(7)
45

18

58

29

Subtotal(8)
2,129

1,451

4,877

3,156

Income (loss) from continuing operations before income taxes for Closed Block Business(9)
0

56

0

69

Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures
$
2,129

$
1,507

$
4,877

$
3,225

__________

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

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

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

Related Investments."

(4) Represents changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See "—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments."

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

(6) See "—Divested Businesses."

(7) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

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

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

Results for the periods presented above reflect the following:

Individual Annuities. Results for both the second quarter and first six months of 2015 increased in comparison to the prior year periods, primarily reflecting favorable comparative impacts on reserves and the amortization of DAC and other costs from changes in the estimated profitability of the business, including those resulting from the annual review and update of assumptions performed in the second quarter of 2015. Also contributing to the increases for both periods was higher net asset-based fee income.

Retirement. Results for both the second quarter and first six months of 2015 decreased in comparison to the prior year periods, reflecting lower net investment spread results, partially offset by more favorable reserve impacts from case experience.

Asset Management. Results for the second quarter of 2015 decreased in comparison to the prior year period, reflecting lower strategic investing results, partially offset by higher asset management fees, net of expenses. Results for the first six months of 2015 increased in comparison to the prior year period, reflecting higher performance-based incentive fees and higher asset management fees, net of expenses, partially offset by lower strategic investing results and lower transaction fees.

Individual Life. Results for both the second quarter and first six months of 2015 increased in comparison to the prior year periods, reflecting a favorable net impact from our annual review and update of assumptions, as well as favorable reserve updates for guaranteed minimum death benefits, partially offset by unfavorable comparative mortality experience, net of reinsurance.

Group Insurance. Results for both the second quarter and first six months of 2015 increased in comparison to the prior year periods, primarily reflecting a favorable net impact from our annual review and update of assumptions, as well as more favorable comparative underwriting results, partially offset by a lower contribution from net investment spread results.

International Insurance. Results for both the second quarter and first six months of 2015 decreased in comparison to the prior year periods, primarily from net unfavorable impacts from foreign currency exchange rates and from our annual review and update of assumptions. Excluding these items, segment results increased from the prior year periods, reflecting net business growth driven by higher sales and a greater contribution from net investment results, partially offset by higher expenses.

Corporate and Other operations. Results for both the second quarter and first six months of 2015 reflect decreased losses in comparison to the prior year periods, primarily reflecting lower operating debt interest expense, net of investment income, and lower levels of corporate expenses, partially offset by higher capital debt interest expense.

Closed Block Division. Closed Block division results for the second quarter of 2015 decreased in comparison to Closed Block Business results in the second quarter of 2014, primarily driven by a decrease in net realized investment gains and lower net investment income, partially offset by a decrease in the policyholder dividend obligation. Closed Block division results for the first six months of 2015 decreased in comparison to Closed Block Business results in the first six months of 2014, primarily driven by lower net investment income and a decline in net insurance results, partially offset by a decrease in the policyholder dividend obligation and an increase in net realized investment gains.

Explanation of Responses:

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Consolidated Results of Operations

The following table summarizes net income (loss) for the periods presented.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Revenues | $13,712 | $13,146 | $29,264 | $26,000 |
| Benefits and expenses | 11,583 | 11,639 | 24,387 | 22,775 |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | 2,129 | 1,507 | 4,877 | 3,225 |
| Income tax expense (benefit) | 679 | 404 | 1,378 | 877 |
| Income (loss) from continuing operations before equity in earnings of operating joint ventures | 1,450 | 1,103 | 3,499 | 2,348 |
| Equity in earnings of operating joint ventures, net of taxes | 9 | 6 | 6 | 6 |
| Income (loss) from continuing operations | 1,459 | 1,109 | 3,505 | 2,354 |
| Income (loss) from discontinued operations, net of taxes | 0 | 4 | 0 | 8 |
| Net income (loss) | 1,459 | 1,113 | 3,505 | 2,362 |
| Less: Income attributable to noncontrolling interests | 53 | 23 | 63 | 34 |
| Net income (loss) attributable to Prudential Financial, Inc. | $1,406 | $1,090 | $3,442 | $2,328 |

Results of Operations

Three Month Comparison. The increase in income (loss) from continuing operations for the second quarter of 2015 compared to the second quarter of 2014 reflected the following:

- $1,802 million favorable variance, on a pre-tax basis, resulting from a net gain in the current quarter compared to a net loss in the year ago quarter, reflecting our decision to manage a portion of our interest rate risk through our Capital Protection Framework (see "—Results of Operations by Segment—Corporate and Other—Capital Protection Framework" for additional information);

- $328 million higher net pre-tax earnings primarily resulting from a gain in the second quarter of 2015 compared to a loss in the year ago quarter from foreign currency exchange rate movements on certain assets and liabilities within our Japanese insurance operations (see "—Results of Operations by Segment—International Insurance Division—Impact of foreign currency exchange rate movements on earnings—U.S. GAAP earnings impact of products denominated in non-local currencies" for additional information); and

- $173 million favorable variance, before taxes, from adjustments to DAC and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses, including the impact of our annual review and update of assumptions performed in the second quarter of of 2015. This excludes the impact associated with the variable annuity hedging program discussed below (see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities" for additional information).

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

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$1,447 million lower net pre-tax realized gains (losses) for PFI excluding the Closed Block division, excluding the impact of the hedging program associated with certain variable annuities described below, primarily reflecting changes in the market value of derivatives due to increases in interest rates in the current quarter compared to decreases in interest rates in the year ago quarter (see "—Realized Investment Gains and Losses" for additional information);

- $504 million unfavorable variance, before income taxes, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities (see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Hedging Program Results" for additional information); and

- $275 million unfavorable impact of higher tax expense reflecting higher pre-tax income in the current quarter compared to the year ago quarter.

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Six Month Comparison. The increase in income (loss) from continuing operations for the first six months of 2015 compared to the first six months of 2014 reflected the following:

- $2,007 million favorable variance, on a pre-tax basis, resulting from a net gain in the first six months of 2015 compared to a net loss in the year ago period, reflecting our decision to manage a portion of our interest rate risk through our Capital Protection Framework;

- $300 million favorable variance, before taxes, from adjustments to DAC and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses, including the impact of our annual review and update of assumptions performed in the second quarter of 2015. This excludes the impact associated with the variable annuity hedging program discussed below;

- $200 million favorable variance, before income taxes, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities; and

- $139 million higher net pre-tax earnings primarily resulting from a gain in the first six months of 2015 compared to a loss in the year ago period from foreign currency exchange rate movements on certain assets and liabilities within our Japanese insurance operations.

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

- $927 million lower net pre-tax realized gains (losses) for PFI excluding the Closed Block division, excluding the impact of the hedging program associated with certain variable annuities described above, primarily reflecting changes in the market value of derivatives due to increases in interest rates in the first six months of 2015 compared to decreases in interest rates in the year ago period; and

- $501 million unfavorable impact of higher tax expense reflecting higher pre-tax income in the first six months of 2015 compared to the year ago period.

Segment Measures

Adjusted Operating Income. In managing our business, we analyze our segments' operating performance using "adjusted operating income." Adjusted operating income does not equate to "income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures" or "net income" as determined in accordance with U.S. GAAP but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. As discussed in "—Results of Operations" above, under both the current reporting for the Closed Block division and the former reporting for the Closed Block Business, its results are excluded from adjusted operating income.

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

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

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



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

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

- DAC and other costs, including deferred sales inducements ("DSI") and value of business acquired ("VOBA");
- Goodwill;
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments;
- Policyholder liabilities;
- Pension and other postretirement benefits;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

Annually, we perform a comprehensive review of the assumptions used in establishing reserves and in calculating the amortization of DAC and other costs. As discussed in "—Consolidated Results of Operations—Results of Operations" above, beginning in 2015, we perform our annual review of assumptions during the second quarter.

DAC and Other Costs

The near-term future equity rate of return assumption used in evaluating DAC and other costs for our domestic variable annuity and variable life insurance products is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15%, we use our maximum future rate of return. As of June 30, 2015, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.7% near-term mean reversion equity rate of return.

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

For additional information on our policies for DAC and other costs and for the remaining critical accounting estimates listed above, see our Annual Report on Form 10-K for the year ended December 31, 2014, under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies & Pronouncements—Application of Critical Accounting Estimates."

Adoption of New Accounting Pronouncements

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

Results of Operations by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

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

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

Account Values

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Twelve Months Ended June 30, |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 |
| | (in millions) | | | | |
| Total Individual Annuities(1): | | | | | |
| Beginning total account value | $161,127 | $155,276 | $158,664 | $154,140 | $159,528 |
| Sales | 2,341 | 2,664 | 4,568 | 4,985 | 9,591 |
| Surrenders and withdrawals | (2,203) | (2,221) | (4,399) | (4,414) | (8,837) |
| Net sales | 138 | 443 | 169 | 571 | 754 |
| Benefit payments | (489) | (481) | (977) | (892) | (1,884) |
| Net flows | (351) | (38) | (808) | (321) | (1,130) |
| Change in market value, interest credited and other activity | (889) | 5,159 | 2,923 | 7,426 | 4,163 |

| | | | | | |
|---|---|---|---|---|---|
| Policy charges | (911 ) | (869 ) | (1,803 ) | (1,717 ) | (3,585 ) |
| Ending total account value | $158,976 | $159,528 | $158,976 | $159,528 | $158,976 |

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(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were $155.4 billion and $155.9 billion as of June 30, 2015 and 2014, respectively. Fixed annuity account values were $3.6 billion as of both June 30, 2015 and 2014.

The decrease in account values as of June 30, 2015 compared to June 30, 2014 was largely driven by benefit payments and contract charges on contractholder accounts. These decreases were partially offset by favorable changes in the market value of contractholder funds, primarily reflecting equity market appreciation over the last twelve months, and positive net sales to a lesser extent.

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The decline in net sales for the three and six months ended June 30, 2015 compared to the prior year periods, respectively, reflects a decline in sales of our products with the highest daily benefit, partially offset by higher sales of other variable annuity products, including our Prudential Premier® Investment Variable Annuity ("PPI") and our Prudential Defined Income Variable Annuity ("PDI"), as we have sought to broaden our offerings and diversify our risk profile.

Operating Results

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Operating results: | | | | |
| Revenues | $1,200 | $1,171 | $2,387 | $2,328 |
| Benefits and expenses | 652 | 781 | 1,310 | 1,550 |
| Adjusted operating income | 548 | 390 | 1,077 | 778 |
| Realized investment gains (losses), net, and related adjustments | (409) | 262 | 1,000 | 466 |
| Related charges | 128 | (3) | (325) | 33 |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | $267 | $649 | $1,752 | $1,277 |

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased $158 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $29 million. The increase was driven by higher asset-based fee income due to growth in average variable annuity account values, net of an increase in asset-based commissions, partially offset by a decline in net investment income driven by lower income on non-coupon investments.

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products. These adjustments resulted in a net benefit of $125 million and a net charge of $4 million in the second quarter of 2015 and 2014, respectively. The net benefit in the second quarter of 2015 primarily reflects the impact of expected favorable future equity market performance and higher expected rates of return on fixed income investments within contractholder accounts and on future expected claims relative to our assumptions. The remaining net benefit included a $31 million net benefit resulting from our annual review and update of assumptions, driven by modifications to both our actuarial and economic assumptions. The net charge in the second quarter of 2014 primarily reflected the impact of lower expected rates of return on fixed income investments within contractholder accounts and on future expected claims relative to our assumptions, which more than offset the impact of favorable equity market performance.

Six Month Comparison. Adjusted operating income increased $299 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $43 million. The increase was driven by higher asset-based fee income due to growth in average variable annuity account values, net of a related increase in asset-based commissions, amortization costs and reserve provisions for the GMDB and GMIB features of our variable annuity products. Partially offsetting this net increase was a decline in net investment income driven by lower income on non-coupon investments.

Adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products resulted in a net benefit of $231 million and a net charge of $25 million in the first six months of 2015 and 2014, respectively. The net benefit in the first six months of 2015 primarily reflected the impact of favorable equity market performance and the net benefit resulting from an annual review and update of assumptions, as discussed above. The net charge in the first six months of 2014 primarily reflected the impact of lower expected rates of return on fixed income investments within contractholder accounts and on future expected claims relative to our assumptions, which more than offset the impact of favorable equity market performance.

Revenues, Benefits and Expenses

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Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," increased $29 million, primarily driven by a $36 million increase in policy charges and fee income, asset management and service fees and other income, due to growth in average variable annuity account values. Partially offsetting this increase was a $10 million decline in net investment income, driven by lower income on non-coupon investments.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $129 million. Excluding the $129 million net decrease related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses remained unchanged. General and administrative expenses, net of capitalization, increased $11 million, driven by higher asset-based commissions and asset management costs due to average account value growth, and higher operating expenses. Amortization of DAC increased $2 million, primarily driven by higher fee income, as discussed above. Partially offsetting these increases were an $11 million decrease in interest expense, driven by lower debt, and a $5 million decrease in interest credited to policyholders' account balances, driven by lower average account values in the general account.

Six Month Comparison. Revenues increased $59 million, primarily driven by an $80 million increase in policy charges and fee income, asset management and service fees and other income, due to growth in average variable annuity account values. Partially offsetting this increase was a $24 million decline in net investment income, driven by lower income on non-coupon investments.

Benefits and expenses decreased $240 million. Excluding the $256 million net decrease related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses increased $16 million. General and administrative expenses, net of capitalization, increased $27 million, driven by higher asset-based commissions and asset management costs due to average account value growth, and higher operating expenses. Amortization of DAC and policyholders' benefits each increased $7 million, primarily driven by higher fee income, as discussed above. Partially offsetting these increases were a $13 million decrease in interest expense, driven by lower debt, and a $12 million decrease in interest credited to policyholders' account balances, driven by lower average account values in the general account.

Variable Annuity Risks and Risk Mitigants

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions such as equity market returns, interest rates and market volatility, along with actuarial assumptions such as contractholder mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For our actuarial assumptions, we have retained the majority of the risk that actual experience will differ from the assumptions used in the original pricing of these products. For our capital markets assumptions, we hedge or limit our exposure to certain risks created by capital markets fluctuations through a combination of product design features, such as an automatic rebalancing feature, also referred to as an asset transfer feature, and inclusion of certain living benefits in our hedging program. In addition, we consider external reinsurance a form of risk mitigation. Effective April 1, 2015, we entered into an agreement with Union Hamilton Reinsurance, Ltd., an external counterparty, to reinsure approximately 50% of the Highest Daily Lifetime Income ("HDI") v.3.0, the newest version of our variable annuity with a "highest daily" living benefits guarantee. This reinsurance agreement covers most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, subject to a maximum $5 billion of new rider purchase payments made through December 31, 2016.

Our automatic rebalancing feature occurs at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate accounts. The automatic rebalancing feature associated with currently-sold highest daily benefit products uses a designated bond fund sub-account within the

separate accounts. The transfers are based on a static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. The objective of the automatic rebalancing feature is to reduce our exposure to equity market risk and market volatility. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of contractholder deposits, as well as a required allocation to our general account for certain of our products. We have also introduced new products that diversify our risk profile and incorporate provisions in product design allowing frequent revisions of key pricing elements. In addition, certain fees are based on the benefit guarantee amount or the contractholder account value, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

We use our hedging program to help manage certain risks associated with certain of our guarantees. The hedging program's objective is to help mitigate fluctuations in net income and capital from living benefit liabilities due to capital market movements, within firm established tolerances. Through our hedging program, we enter into derivative positions that seek to offset the net change in our hedge target, discussed further below. In addition to mitigating fluctuations of the living benefit liabilities due to

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capital market movements, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path. For additional information regarding this program, see "—Variable Annuities Hedging Program Results" below.

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

The majority of our variable annuity contracts with living benefits features, and all new contracts sold with our highest daily living benefits feature, include risk mitigants in the form of an automatic rebalancing feature and/or inclusion in our hedging program. As discussed above, we also utilize external reinsurance as a form of additional risk mitigation. The guaranteed benefits of certain legacy products that were sold prior to our implementation of the automatic rebalancing feature are also included in our hedging program. Certain legacy guaranteed minimum accumulation benefit ("GMAB") products include the automatic rebalancing feature, but are not included in the hedging program. The PDI product and contracts with the GMIB feature have neither risk mitigant. Rather than utilizing a capital markets hedging strategy, certain risks associated with PDI are managed through the limitation of contractholder asset allocations to a single bond fund sub-account.

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

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

| | June 30, 2015 | | December 31, 2014 | | June 30, 2014 | |
|---|---|---|---|---|---|---|
| | Account Value | % of Total | Account Value | % of Total | Account Value | % of Total |
| | (in millions) | | | | | |
| Living benefit/GMDB features(1): | | | | | | |
| Both hedging program and automatic rebalancing(2) | $111,196 | 72 % | $110,953 | 72 % | $110,660 | 71 % |
| Hedging program only | 10,896 | 7 % | 11,395 | 7 % | 12,052 | 8 % |
| Automatic rebalancing only | 1,574 | 1 % | 1,771 | 1 % | 2,035 | 1 % |
| External reinsurance(3) | 553 | 0 % | 0 | 0 % | 0 | 0 % |
| PDI | 3,634 | 2 % | 2,777 | 2 % | 1,846 | 1 % |
| Other Products | 3,151 | 2 % | 3,324 | 2 % | 3,545 | 2 % |
| Total living benefit/GMDB features | $131,004 | | $130,220 | | $130,138 | |
| GMDB features and other(4): | 24,420 | 16 % | 24,863 | 16 % | 25,752 | 17 % |

| Total variable annuity account value | $155,424 | $155,083 | $155,890 |
|---|---|---|---|

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(1) All contracts with living benefit guarantees also contain GMDB features, covering the same insured contract.
(2) Contracts with living benefits that are included in our hedging program, and have an automatic rebalancing feature.
(3) Represents reinsurance transaction with external counterparty effective April 2015. These contracts with living benefits also have an automatic rebalancing feature.
(4) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

The changes in the risk profile of our variable annuity account values reflect our product risk diversification strategy and broadening of our product offerings over the past year, as well as the runoff of legacy products over time.

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Variable Annuity Hedging Program Results

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

As noted within "—Variable Annuity Risks and Risk Mitigants" above, we maintain a hedging program to help manage certain capital market risks associated with certain of these guarantees. Our hedging program utilizes an internally-defined hedge target. We review our hedge target and hedging program on an ongoing basis, and may periodically adjust them based on our evaluation of the risks associated with the guarantees and other factors. As currently defined, our hedge target includes the following modifications to the assumptions used in the U.S. GAAP valuation:

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

- The assumptions used in the projection of customer account values for fixed income and equity funds and the discounted net living benefits (claims less fees) are adjusted to reflect returns in excess of risk-free rates equal to our expectations of credit risk premiums.

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

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

| | As of June 30, 2015 | As of December 31, 2014 |
|---|---|---|
| | (in billions) | |
| Embedded derivative liability as defined by U.S. GAAP | $5.5 | $8.1 |
| Less: NPR Adjustment | (7.3) | (6.7) |
| Embedded derivative liability as defined by U.S. GAAP, excluding NPR | 12.8 | 14.8 |
| Less: Amount of embedded derivative liability, excluding NPR, excluded from hedge target liability | 5.9 | 6.1 |
| Hedge target liability (contra-liability) | $6.9 | $8.7 |

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

| Instrument | As of June 30, 2015 | | | | As of December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity | | Interest Rate | | Equity | | Interest Rate | |
| | Notional | Market Value | Notional | Market Value | Notional | Market Value | Notional | Market Value |
| | (in billions) | | | | | | | |
| Futures | $0.0 | $0.0 | $0.1 | $0.0 | $0.2 | $0.0 | $0.0 | $0.0 |
| Swaps(1) | 15.5 | 0.2 | 88.4 | 3.6 | 14.5 | (0.4) | 87.7 | 5.1 |
| Options | 9.4 | 0.2 | 23.1 | 0.2 | 10.4 | 0.4 | 25.5 | 0.5 |
| Total | $24.9 | $0.4 | $111.6 | $3.8 | $25.1 | $0.0 | $113.2 | $5.6 |

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

Due to cash flow timing differences between our hedging instruments and the corresponding hedge target, as well as other factors such as updates to actuarial assumptions which are not hedged, the market value of the hedge portfolio compared to our hedge target measured as of any specific point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held as part of the hedging program, we have cash and other invested assets available to cover the future claims payable under these guarantees and other liabilities. For additional information on the liquidity needs associated with our hedging program, see "—Liquidity and Capital Resources—Liquidity—Liquidity associated with other activities—Hedging activities associated with living benefit guarantees."

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

- Fund Performance—In order to project future account value changes, we make certain assumptions about how each underlying fund will perform. We map contractholder funds to hedgeable indices that we believe are the best representation of the liability to be hedged in the capital markets. The difference between the modeled fund performance and actual fund performance results in basis that can be either positive or negative.

- Net Market Impact—We incur rebalancing costs related to the dynamic rebalancing of the hedging instruments as markets move. Our hedging program is also subject to the impact of implied and realized market volatility on the hedge positions relative to our hedge target that can lead to positive or negative results.

- Liability Basis—We make assumptions about expected changes in the hedge target related to certain items, such as contractholder behavior. The difference between the actual change in the hedge target and the expected changes we have modeled results in basis that can be either positive or negative.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 (1) | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Hedge Program Results: | | | | |
| Change in value of hedge target(2) | $4,581 | $(859) | $2,166 | $(2,795) |
| Change in fair value of hedge positions | (4,582) | 971 | (2,165) | 2,927 |
| Net hedging impact(2)(3) | $(1) | $112 | $1 | $132 |
| Reconciliation of Hedge Program Results to U.S. GAAP Results: | | | | |
| Net hedging impact (from above) | $(1) | $112 | $1 | $132 |
| Change in portions of U.S. GAAP liability, before NPR, excluded from hedge target(2)(4) | 840 | (349) | 409 | (910) |

| | | | | |
|---|---|---|---|---|
| Change in the NPR adjustment(2) | (1,148) | 486 | 660 | 1,214 |
| Net impact from changes in the U.S. GAAP embedded derivative and hedge positions—reported in Individual Annuities | (309) | 249 | 1,070 | 436 |
| Related benefit (charge) to amortization of DAC and other costs(2) | 77 | (11) | (382) | 18 |
| Net impact of assumption updates and other refinements | (34) | 0 | (34) | 0 |
| Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs—reported in Individual Annuities(3) | $(266) | $238 | $654 | $454 |

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

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(2) Excludes the net impacts of assumption updates and other refinements, and includes rider fees received attributable to future benefit payments. For both the three and six months ended June 30, 2015, the assumption update impact to the change in value of hedge target, change in portions of U.S. GAAP liability, before NPR, excluded from hedge target, change in the NPR adjustment and related benefit (charge) to amortization of DAC and other costs was approximately $106 million, $(172) million, $(8) million and $40 million, respectively. Attributed fees received for the three and six months ended June 30, 2015, were approximately $250 million and $494 million, respectively, and were included in "Change in value of hedge target."

(3) Excludes $768 million and $(592) million for the three months ended June 30, 2015 and 2014, respectively, and $111 million and $(1,462) million for the six months ended June 30, 2015 and 2014, respectively, representing the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. Because this decision is based on the capital considerations of the Company as a whole, the impact is reported in Corporate and Other operations. See "—Corporate and Other."

(4) Represents the impact attributable to the difference between the value of the hedge target and the value of the embedded derivative as defined by U.S. GAAP, before adjusting for NPR, as discussed above.

The net hedging charge of $266 million and benefit of $654 million for the three and six months ended June 30, 2015, respectively, were primarily driven by changes in the NPR adjustment. For the three months ended June 30, 2015, rising interest rates drove decreases in the base embedded derivative liability before NPR, which resulted in corresponding decreases in the NPR adjustment. The impact on NPR from rising interest rates was partially offset by the impact of widening credit spreads. For the six months ended June 30, 2015, increases in the NPR adjustment driven by widening credit spreads more than offset the decrease due to net interest rate increases. These impacts were partially offset by related impacts to the amortization of DAC and other costs for both periods. Results for both periods also reflected the changes in the portions of the U.S. GAAP liability that are excluded from our hedge target, net of related impacts to the amortization of DAC and other costs. The net charge from the impact of assumption updates and other refinements of $34 million for both periods resulted from our annual review and update of assumptions, primarily driven by modifications to our actuarial assumptions and other refinements.

The net hedging benefits of $238 million and $454 million for the three and six months ended June 30, 2014, respectively, were primarily driven by changes in the NPR adjustment. Declining interest rates in 2014 drove increases in the base embedded derivative liability before NPR which resulted in corresponding increases in the NPR adjustment for both periods. To a lesser extent, results for both periods also reflected the net impacts of changes in the value of our hedge target and related hedge positions. Lower interest rate volatility and fund outperformance relative to indices, partially offset by unfavorable liability basis, drove net hedging benefits for both periods. The changes in the NPR adjustment and the net hedging impacts resulted in related impacts to the amortization of DAC and other costs in all periods. Results for both periods also reflected the changes in the portions of the U.S. GAAP liability that are excluded from our hedge target, net of related impacts to the amortization of DAC and other costs.

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

Retirement

Operating Results

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |

| | (in millions) | | | |
|---|---|---|---|---|
| Operating results: | | | | |
| Revenues | $3,180 | $1,469 | $5,658 | $3,000 |
| Benefits and expenses | 2,943 | 1,183 | 5,137 | 2,350 |
| Adjusted operating income | 237 | 286 | 521 | 650 |
| Realized investment gains (losses), net, and related adjustments | (273) | 93 | 136 | 211 |
| Related charges | 0 | 1 | (1) | 1 |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net | (270) | 172 | (243) | 345 |
| Change in experience-rated contractholder liabilities due to asset value changes | 284 | (136) | 143 | (251) |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | $(22) | $416 | $556 | $956 |

Adjusted Operating Income

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Three Month Comparison. Adjusted operating income decreased $49 million, primarily driven by lower net investment spread results, partially offset by a more favorable reserve impact from case experience. The decrease in net investment spread results primarily reflected lower income on non-coupon investments, lower reinvestment rates and lower income on derivatives used in portfolio management, partially offset by growth in account values primarily from significant pension risk transfer transactions. The more favorable reserve impact from case experience reflected favorable mortality for pension risk transfer contracts. There was no net impact to adjusted operating income from our annual review and update of assumptions and other refinements.

Six Month Comparison. Adjusted operating income decreased $129 million, primarily driven by lower net investment spread results, partially offset by a more favorable reserve impact from case experience. The decrease in net investment spread results primarily reflected lower income on non-coupon investments, lower reinvestment rates and lower income on derivatives used in portfolio management, partially offset by growth in account values primarily from significant pension risk transfer transactions. The more favorable reserve impact from case experience reflected favorable mortality for pension risk transfer contracts. There was no net impact to adjusted operating income from our annual review and update of assumptions and other refinements.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," increased $1,711 million. Premiums increased $1,735 million, primarily driven by pension risk transfer transactions, including a significant payout annuity transaction that closed in the second quarter of 2015 and ongoing premiums assumed for longevity reinsurance contracts sold over the last year. This increase in premiums resulted in a corresponding increase in policyholders' benefits, as discussed below. Net investment income decreased $12 million, primarily reflecting lower income on non-coupon investments and lower reinvestment rates, partially offset by growth in account values from significant pension risk transfer transactions. Policy charges and fee income, asset management and service fees and other income decreased $12 million, primarily from lower income on derivatives used in portfolio management and lower fee income.

Benefits and expenses, as shown in the table above under "—Operating Results," increased $1,760 million. Policyholders' benefits, including the change in policy reserves, increased $1,745 million, primarily related to the increase in premiums discussed above. Amortization of DAC increased $30 million primarily driven by a net unfavorable impact from our annual review and update of assumptions and other refinements, and an increase from amortization related to the significant pension risk transfer transactions discussed above. Partially offsetting these increases was a $9 million decrease in interest credited to policyholders' account balances, driven by the impact of crediting rate reductions on full service general account stable value account values and maturities of contracts with higher crediting rates. In addition, general and administrative expenses, net of capitalization, decreased $7 million primarily driven by a favorable impact from our annual review and update of assumptions and other refinements on the amortization of VOBA, partially offset by higher operating expenses, including costs to support strategic initiatives.

Six Month Comparison. Revenues increased $2,658 million. Premiums increased $2,751 million, primarily driven by pension risk transfer transactions, including two significant payout annuity transactions that closed in 2015 and ongoing premiums assumed for longevity reinsurance contracts sold over the last year. This increase in premiums resulted in a corresponding increase in policyholders' benefits, as discussed below. Net investment income decreased $58 million primarily reflecting lower income on non-coupon investments and lower reinvestment rates, partially offset by growth in account values from significant pension risk transfer transactions. Policy charges and fee income, asset management and service fees and other income decreased $35 million primarily from lower income on derivatives used in portfolio management and lower fee income.

Benefits and expenses increased $2,787 million. Policyholders' benefits, including the change in policy reserves, increased $2,768 million, primarily related to the increase in premiums discussed above. Amortization of DAC increased $30 million primarily driven by a net unfavorable impact from our annual review and update of assumptions and other refinements, and an increase from amortization related to the significant pension risk transfer transactions discussed above. Partially offsetting these increases was an $11 million decrease in interest credited to policyholders' account balances, driven by maturities of contracts with higher crediting rates and the impact of crediting rate reductions on full service general account stable value account values. In addition, general and administrative expenses, net of capitalization, decreased $2 million primarily driven by a favorable impact from our annual review and update of assumptions and other refinements on the amortization of VOBA, partially offset by higher operating expenses, including costs to support strategic initiatives.

Account Values

Account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. The income we earn on our fee-based products varies with the level of fee-based account values, since many policy fees are determined by these values. The investment income and interest we credit to policyholders on our spread-based products varies with the level of general account values. To a lesser extent, changes in account values impact our

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pattern of amortization of DAC and VOBA and general and administrative expenses. The following table shows the changes in the account values and net additions (withdrawals) of Retirement segment products for the periods indicated. Net additions (withdrawals) are plan sales and participant deposits or additions, as applicable, minus plan and participant withdrawals and benefits. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement segment. For more information on internally-managed balances, see "—Asset Management."

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Twelve Months Ended June 30, |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 |
| | (in millions) | | | | |
| Full Service: | | | | | |
| Beginning total account value | $188,145 | $178,150 | $184,196 | $173,502 | $181,577 |
| Deposits and sales | 5,040 | 4,528 | 11,354 | 13,115 | 22,173 |
| Withdrawals and benefits | (4,683) | (6,066) | (10,912) | (12,069) | (21,444) |
| Change in market value, interest credited and interest income and other activity | 305 | 4,965 | 4,169 | 7,029 | 6,501 |
| Ending total account value | $188,807 | $181,577 | $188,807 | $181,577 | $188,807 |
| Net additions (withdrawals) | $357 | $(1,538) | $442 | $1,046 | $729 |
| Institutional Investment Products: | | | | | |
| Beginning total account value | $177,120 | $149,661 | $179,641 | $149,402 | $148,971 |
| Additions | 9,147 | 2,075 | 10,116 | 3,808 | 49,601 |
| Withdrawals and benefits | (3,808) | (4,602) | (7,303) | (7,619) | (15,720) |
| Change in market value, interest credited and interest income(1) | 83 | 1,753 | 1,712 | 3,194 | 4,351 |
| Other(1)(2) | 1,256 | 84 | (368) | 186 | (3,405) |
| Ending total account value | $183,798 | $148,971 | $183,798 | $148,971 | $183,798 |
| Net additions (withdrawals) | $5,339 | $(2,527) | $2,813 | $(3,811) | $33,881 |

(1) Prior period amounts have been reclassified to conform to current period presentation.

(2) "Other" activity includes the effect of foreign exchange rate changes associated with our United Kingdom longevity reinsurance business and changes in asset balances for externally-managed accounts.

The increase in full service account values as of June 30, 2015, compared to June 30, 2014, primarily reflects the impact of equity market appreciation on the market value of customer funds over the past twelve months. The increase in net additions (withdrawals) for the three months ended June 30, 2015, compared to the prior year period was primarily driven by a lower volume of large plan lapses and a higher volume of large plan sales. The decrease in net additions for the six months ended June 30, 2015, compared to the prior year period was driven by a significant plan sale in the prior period.

The increase in institutional investment products account values as of June 30, 2015, compared to June 30, 2014, primarily reflects additions resulting from significant pension risk transfer transactions over the past twelve months and a bank-owned life insurance stable value transaction in the second quarter of 2015, partially offset by net withdrawals of investment-only stable value accounts. The increase in net additions (withdrawals) for both the three and six months ended June 30, 2015, compared to the prior year periods was primarily driven by additions resulting from significant pension risk transfer transactions, and a bank-owned life insurance stable value transaction.

Asset Management

Operating Results

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Operating results: | | | | |
| Revenues | $776 | $713 | $1,509 | $1,380 |
| Expenses | 580 | 513 | 1,108 | 987 |
| Adjusted operating income | 196 | 200 | 401 | 393 |
| Realized investment gains (losses), net, and related adjustments | (9) | 0 | (3) | 7 |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | 49 | 22 | 54 | 29 |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | $236 | $222 | $452 | $429 |

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased $4 million. The decrease primarily reflected lower strategic investing results driven by lower income from fixed income funds. Partially offsetting the decrease were higher asset management fees, net of expenses, as a result of higher assets under management due to positive net flows and market appreciation.

Six Month Comparison. Adjusted operating income increased $8 million. The increase reflected higher performance-based incentive fees, net of expenses, primarily related to certain real estate funds, and higher asset management fees, net of expenses, as a result of higher assets under management due to positive net asset flows and market appreciation. These increases were partially offset by lower strategic investing results, driven by a gain on the sale of an investment in the prior period, and lower transaction fees in certain real estate portfolios.

Revenues and Expenses

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Revenues by type: | | | | |
| Asset management fees by source: | | | | |
| Institutional customers | $230 | $225 | $458 | $439 |
| Retail customers(1) | 197 | 177 | 386 | 350 |
| General account | 113 | 105 | 226 | 207 |
| Total asset management fees | 540 | 507 | 1,070 | 996 |
| Incentive fees | 16 | 17 | 47 | 38 |
| Transaction fees | 5 | 8 | 10 | 15 |
| Strategic investing | 7 | 20 | 23 | 37 |
| Commercial mortgage(2) | 24 | 22 | 44 | 43 |
| Other related revenues(3) | 52 | 67 | 124 | 133 |
| Service, distribution and other revenues(4) | 184 | 139 | 315 | 251 |

| Total revenues | $776 | $713 | $1,509 | $1,380 |
| --- | --- | --- | --- | --- |

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

(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.

(3) Future revenues will be impacted by the level and diversification of our strategic investments, the commercial real estate market, and other domestic and international markets.

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(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $20 million for both the three months ended June 30, 2015 and 2014, and $39 million for both the six months ended June 30, 2015 and 2014.

Three Month Comparison. Revenues, as shown in the table above, under "—Operating Results," increased $63 million. Service, distribution and other revenues increased $45 million reflecting higher fees from certain consolidated funds, which were partially offset by higher expenses related to noncontrolling interests in these funds. Asset management fees increased $33 million primarily as a result of higher assets under management due to positive net asset flows and market appreciation. Partially offsetting these increases was a $13 million decrease in strategic investing revenues, primarily reflecting lower income from fixed income funds.

Expenses, as shown in the table above under "—Operating Results," increased $67 million, including expenses relating to business growth initiatives, commissions from higher retail sales and higher expenses related to revenues associated with certain consolidated funds, as discussed above.

Six Month Comparison. Revenues increased $129 million. Asset management fees increased $74 million primarily as a result of higher assets under management due to positive net asset flows and market appreciation. Service, distribution and other revenues increased $64 million reflecting higher fees from certain consolidated funds, which were partially offset by higher expenses related to noncontrolling interests in these funds. Partially offsetting these increases was a $14 million decrease in strategic investing revenues, primarily reflecting a gain on the sale of an investment in the prior period.

Expenses increased $121 million, including expenses relating to business growth initiatives, commissions from higher retail sales and higher expenses related to revenues associated with certain consolidated funds, as discussed above.

Assets Under Management

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

| | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|
| | (in billions) | | |
| Assets Under Management (at fair market value): | | | |
| Institutional customers: | | | |
| Equity | $65.7 | $63.8 | $66.2 |
| Fixed income | 277.4 | 270.0 | 264.7 |
| Real estate | 37.5 | 36.2 | 36.1 |
| Institutional customers(1) | 380.6 | 370.0 | 367.0 |
| Retail customers: | | | |
| Equity | 128.5 | 122.8 | 122.2 |
| Fixed income | 68.4 | 61.0 | 55.7 |
| Real estate | 2.3 | 2.3 | 2.2 |
| Retail customers(2) | 199.2 | 186.1 | 180.1 |
| General account: | | | |
| Equity | 7.7 | 7.7 | 8.1 |
| Fixed income | 359.0 | 368.1 | 364.6 |

| | | | |
|---|---|---|---|
| Real estate | 1.8 | 1.6 | 1.7 |
| General account | 368.5 | 377.4 | 374.4 |
| Total assets under management | $948.3 | $933.5 | $921.5 |

(1) Consists of third-party institutional assets and group insurance contracts.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Twelve Months Ended June 30, 2015 |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | |
| | (in billions) | | | | |
| Institutional Customers: | | | | | |
| Beginning Assets Under Management | $380.9 | $352.2 | $370.0 | $341.7 | $367.0 |
| Net additions (withdrawals), excluding money market activity: | | | | | |
| Third party | 6.8 | 2.7 | 10.5 | 4.6 | 6.6 |
| Affiliated | (1.1) | 0.4 | (1.8) | 0.1 | (0.1) |
| Total | 5.7 | 3.1 | 8.7 | 4.7 | 6.5 |
| Market appreciation (depreciation) | (5.8) | 11.7 | 1.9 | 20.8 | 8.0 |
| Other increases (decreases)(1) | (0.2) | 0.0 | 0.0 | (0.2) | (0.9) |
| Ending Assets Under Management | $380.6 | $367.0 | $380.6 | $367.0 | $380.6 |
| Retail Customers: | | | | | |
| Beginning Assets Under Management | $198.4 | $172.9 | $186.1 | $170.7 | $180.1 |
| Net additions (withdrawals), excluding money market activity: | | | | | |
| Third party | (0.4) | 0.7 | 3.6 | 0.9 | 7.4 |
| Affiliated | 0.8 | (1.0) | 3.6 | (1.5) | 4.6 |
| Total | 0.4 | (0.3) | 7.2 | (0.6) | 12.0 |
| Market appreciation (depreciation) | 0.2 | 7.0 | 6.0 | 9.8 | 7.8 |
| Other increases (decreases)(1) | 0.2 | 0.5 | (0.1) | 0.2 | (0.7) |
| Ending Assets Under Management | $199.2 | $180.1 | $199.2 | $180.1 | $199.2 |
| General Account: | | | | | |
| Beginning Assets Under Management | $382.4 | $365.8 | $377.4 | $357.5 | $374.4 |
| Net additions (withdrawals), excluding money market activity: | | | | | |
| Third party | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Affiliated | (0.9) | (0.3) | (2.0) | 1.7 | 0.2 |
| Total | (0.9) | (0.3) | (2.0) | 1.7 | 0.2 |
| Market appreciation (depreciation) | (9.1) | 7.1 | (3.8) | 15.1 | 6.9 |
| Other increases (decreases)(1) | (3.9) | 1.8 | (3.1) | 0.1 | (13.0) |
| Ending Assets Under Management | $368.5 | $374.4 | $368.5 | $374.4 | $368.5 |

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(1) Includes the effect of foreign exchange rate changes, net money market activity and transfers from/(to) the Retirement segment as a result of changes in the client contract form. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in losses of $1.4 billion and gains of $1.2 billion for the three months ended June 30, 2015 and 2014, respectively, losses of $2.0 billion and gains of $1.7 billion for the six months ended June 30, 2015 and 2014, respectively, and losses of $17.6 billion for the twelve months ended June 30, 2015.

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Strategic Investments

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

| | June 30, 2015 | 2014 |
|---|---|---|
| | (in millions) | |
| Co-Investments: | | |
| Real estate | $245 | $348 |
| Fixed income | 150 | 70 |
| Seed Investments: | | |
| Real estate | 37 | 33 |
| Public equity | 290 | 265 |
| Fixed income | 165 | 238 |
| Loans Secured by Investor Equity Commitments or Fund Assets: | | |
| Private equity secured by investor equity | 15 | 0 |
| Total | $902 | $954 |

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Operating results: | | | | |
| Revenues | $1,160 | $1,318 | $2,511 | $2,614 |
| Benefits and expenses | 923 | 1,160 | 2,158 | 2,331 |
| Adjusted operating income | 237 | 158 | 353 | 283 |
| Realized investment gains (losses), net, and related adjustments | (429) | 221 | (135) | 548 |
| Related charges | 244 | (56) | 96 | (138) |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | $52 | $323 | $314 | $693 |

On January 2, 2013, we acquired The Hartford Financial Services Group's individual life insurance business ("the Hartford Life Business") through a reinsurance transaction. As of June 30, 2015, the integration of the Hartford Life Business is substantially complete. We incurred approximately $110 million of pre-tax integration costs, inclusive of capitalized expenses, relative to expected costs of $120 million. We have also achieved annualized cost savings of approximately $90 million on a run rate basis commencing in the third quarter, which is in line with our expectations.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased $79 million, primarily reflecting a $68 million net benefit from our annual review and update of assumptions and other refinements, mainly driven by net favorable modifications to our economic and actuarial assumptions. Excluding this impact, adjusted operating income increased $11 million, primarily driven by reserve updates for guaranteed minimum death benefits, partially offset by less favorable mortality experience, net of reinsurance, and a related decrease in the amortization of VOBA.

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Six Month Comparison. Adjusted operating income increased $70 million, primarily reflecting the net benefit from our annual review and update of assumptions and other refinements, as discussed above. Excluding this impact, adjusted operating income increased $2 million. This increase was primarily driven by reserve updates for guaranteed minimum death benefits, partially offset by unfavorable mortality experience, net of reinsurance, and a related decrease in the amortization of VOBA.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $158 million. Excluding the impact of our annual review and update of assumptions and other refinements, as discussed above, revenues decreased $5 million. Policy charges and fee income, asset management and service fees and other income decreased $29 million primarily reflecting a decrease in the amortization of unearned revenue reserves, driven by the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions, partially offset by growth in our universal life business. Net investment income increased $14 million, reflecting higher invested assets resulting from business growth, required capital and increased unaffiliated reserve financing, which was offset by higher interest expense, as discussed below. Premiums increased $10 million primarily driven by growth in our term life insurance business.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $237 million. Excluding the impact of our annual review and update of assumptions and other refinements, as discussed above, benefits and expenses decreased $16 million. The amortization of DAC decreased $48 million, including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions. General and administrative expenses, net of capitalization, decreased $6 million, driven by lower amortization of VOBA primarily due to less favorable mortality experience. Policyholders' benefits, including interest credited to account balances, increased $28 million, primarily reflecting universal life business growth and less favorable mortality experience. Interest expense increased $10 million related to unaffiliated reserve financing transactions with offsets in revenue, as discussed above.

Six Month Comparison. Revenues decreased $103 million. Excluding the impact of our annual review and update of assumptions and other refinements, as discussed above, revenues increased $50 million. Premiums increased $28 million primarily driven by growth in our term life insurance business. Net investment income increased $18 million, reflecting higher invested assets resulting from business growth, required capital and increased unaffiliated reserve financing, which was offset by higher interest expense, as discussed below.

Benefits and expenses decreased $173 million. Excluding the impact of our annual review and update of assumptions and other refinements, as discussed above, benefits and expenses increased $48 million. Policyholders' benefits, including interest credited to account balances, increased $100 million, primarily reflecting universal life business growth and unfavorable mortality experience. Interest expense increased $22 million related to unaffiliated reserve financing transactions with offsets in revenue, as discussed above. The amortization of DAC decreased $58 million, including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions. General and administrative expenses, net of capitalization, decreased $17 million, driven by lower amortization of VOBA primarily due to less favorable mortality experience.

Sales Results

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

| Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 |
| --- | --- |

| | Prudential Agents (in millions) | Third Party | Total | Prudential Agents | Third Party | Total |
|---|---|---|---|---|---|---|
| Variable Life | $3 | $10 | $13 | $4 | $7 | $11 |
| Universal Life(1) | 16 | 49 | 65 | 11 | 35 | 46 |
| Term Life | 8 | 44 | 52 | 10 | 36 | 46 |
| Total | $27 | $103 | $130 | $25 | $78 | $103 |

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| | Six Months Ended June 30, 2015 | | | Six Months Ended June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Prudential Agents | Third Party | Total | Prudential Agents | Third Party | Total |
| | (in millions) | | | | | |
| Variable Life | $10 | $21 | $31 | $9 | $11 | $20 |
| Universal Life(1) | 26 | 96 | 122 | 20 | 97 | 117 |
| Term Life | 16 | 85 | 101 | 18 | 70 | 88 |
| Total | $52 | $202 | $254 | $47 | $178 | $225 |

(1) Single pay life annualized new business premiums, which include 10% of excess (unscheduled) premiums, represented approximately 15% and 7% of Universal Life annualized new business premiums for the three months ended June 30, 2015 and 2014, respectively, and approximately 13% and 11% of Universal Life annualized new business premiums for the six months ended June 30, 2015 and 2014, respectively.

Annualized new business premiums for both the second quarter and the first six months of 2015 increased relative to the prior year periods, primarily driven by pricing and other actions we have taken to diversify product sales.

Group Insurance

Operating Results

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Operating results: | | | | |
| Revenues | $1,291 | $1,342 | $2,568 | $2,704 |
| Benefits and expenses | 1,216 | 1,296 | 2,463 | 2,652 |
| Adjusted operating income | 75 | 46 | 105 | 52 |
| Realized investment gains (losses), net, and related adjustments | (21) | 8 | 8 | 25 |
| Related charges | 0 | (1) | (1) | (3) |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | $54 | $53 | $112 | $74 |
| | | | | |
| Benefits ratio(1): | | | | |
| Group life(2) | 86.5% | 89.3% | 89.6% | 89.5% |
| Group disability(2) | 61.6% | 83.9% | 67.0% | 92.2% |
| Administrative operating expense ratio(3): | | | | |
| Group life | 10.5% | 9.9% | 10.6% | 10.5% |
| Group disability | 34.1% | 29.4% | 33.4% | 29.2% |

(1) Ratio of policyholder benefits to earned premiums, policy charges and fee income.

(2) 2015 benefits ratios reflect the impacts of our annual reviews and updates of assumptions and other refinements. Excluding these impacts, the group life and group disability benefits ratios were 88.3% and 76.3% for the three months ended June 30, 2015, respectively, and 90.5% and 74.2% for the six months ended June 30, 2015, respectively.

(3)

Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased $29 million, primarily reflecting favorable impacts from our annual review and update of assumptions and other refinements. Results for the second quarter of 2015 included a $28 million net benefit from these updates related to actuarial assumptions used in calculating both group disability and group life reserves and other refinements. Excluding the effect of these items, adjusted operating income increased $1 million primarily driven by more favorable underwriting results in both our group disability and group life businesses, largely offset by higher expenses

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reflecting a decrease in litigation reserves in the second quarter of 2014 and a lower contribution from net investment spread results. The favorable underwriting results for the group disability business reflected the impact of higher claim resolutions for long-term contracts. The more favorable underwriting results for our group life business primarily reflected improved claim experience.

Six Month Comparison. Adjusted operating income increased $53 million, primarily reflecting favorable impacts from our annual review and update of assumptions and other refinements, as discussed above. Excluding the effect of these items, adjusted operating income increased $25 million primarily driven by more favorable underwriting results in our group disability business and lower expenses, partially offset by less favorable underwriting results in our group life business and a lower contribution from net investment spread results. The favorable underwriting results for our group disability business reflected the impact of higher claim resolutions and fewer new claims for long-term contracts. The less favorable underwriting results for our group life business reflected unfavorable claim experience.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $51 million. Excluding a favorable impact of $5 million resulting from our annual review and update of assumptions and other refinements, as discussed above, revenues decreased $56 million. The decrease reflected $43 million lower premiums and policy charges and fee income in our group life and group disability businesses driven by lapses resulting from continued pricing discipline on contract renewals.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $80 million. Excluding a favorable impact of $23 million resulting from our annual reviews and updates of assumptions and other refinements, as discussed above, benefits and expenses decreased $57 million. Policyholders' benefits, including the change in reserves, decreased $60 million, driven by declines for both our group disability and group life businesses. The decline in our group disability business primarily reflected the impact of higher claim resolutions for long-term contracts. The decline in our group life business reflected fewer claims, partially offset by higher claim severity for non-experience-rated contracts.

Six Month Comparison. Revenues decreased $136 million. Excluding a favorable impact of $5 million resulting from our annual review and update of assumptions and other refinements, as discussed above, revenues decreased $141 million. The decrease reflected $118 million lower premiums and policy charges and fee income in our group life and group disability businesses primarily driven by lapses resulting from continued pricing discipline on contract renewals. Net investment income decreased $16 million driven by lower income from non-coupon investments.

Benefits and expenses decreased $189 million. Excluding a favorable impact of $23 million resulting from our annual review and update of assumptions and other refinements, as discussed above, benefits and expenses decreased $166 million. Policyholders' benefits, including the change in reserves, decreased $150 million, driven by declines for both our group disability and group life businesses. The decline in our disability business reflected the impact of higher claim resolutions and fewer new claims for long-term contracts. The decline in our group life business reflected fewer claims, partially offset by higher claim severity for non-experience-rated contracts. These decreases were partially offset by favorable reserve refinements in the first quarter of 2014.

Sales Results

The following table sets forth the Group Insurance segment's annualized new business premiums, as defined under "—Segment Measures" above, for the periods indicated.

| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|

| | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | (in millions) | | | |
| Annualized new business premiums(1): | | | | |
| Group life | $10 | $10 | $141 | $147 |
| Group disability | 14 | 12 | 45 | 45 |
| Total | $24 | $22 | $186 | $192 |

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

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Total annualized new business premiums were relatively flat for both the second quarter and the first six months of 2015 compared to 2014, reflecting our continued pricing discipline for both group life and group disability products.

International Insurance Division

Foreign Currency Exchange Rate Movements and Related Hedging Strategies

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

The operations of our International Insurance division are subject to currency fluctuations that can materially affect our U.S. dollar-equivalent earnings from period to period, even if earnings on a local currency basis are relatively constant. We enter into forward currency derivative contracts as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar-denominated earnings streams, thereby reducing earnings volatility from foreign currency exchange rate movements. The forward currency hedging program is primarily associated with our insurance operations in Japan and Korea.

Separately, our Japanese insurance operations offer a variety of non-yen denominated products, primarily comprised of U.S. and Australian dollar-denominated products that are supported by investments in corresponding currencies. While these non-yen denominated assets and liabilities are economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in reported U.S. GAAP earnings. As a result of continued growth in these portfolios, we implemented a new structure in Gibraltar Life that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure became effective for financial reporting in the first quarter of 2015.

For further information on the hedging strategies used to mitigate the risks of foreign currency exchange rate movements on earnings as well as the U.S. GAAP earnings impact from products denominated in non-local currencies, see "—Impact of foreign currency exchange rate movements on earnings."

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

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

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| | June 30, 2015 (in billions) | December 31, 2014 |
|---|---|---|
| Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings: | | |
| Forward currency hedging program(1) | $1.8 | $2.0 |
| Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity: | | |
| U.S. dollar-denominated assets held in yen-based entities(2): | | |
| Available-for-sale U.S. dollar-denominated investments, at amortized cost | 12.2 | 12.2 |
| Held-to-maturity U.S. dollar-denominated investments, at amortized cost | 0.1 | 0.1 |
| Other | 0.1 | 0.1 |
| Subtotal | 12.4 | 12.4 |
| Yen-denominated liabilities held in U.S. dollar-based entities(3) | 0.6 | 0.8 |
| Dual currency and synthetic dual currency investments(4) | 0.8 | 0.8 |
| Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity | 13.8 | 14.0 |
| Total hedges | $15.6 | $16.0 |

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(1) Represents the notional amount of forward currency contracts outstanding.

(2) Excludes $29.7 billion and $29.1 billion as of June 30, 2015 and December 31, 2014, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.

(3) The yen-denominated liabilities are reported in Corporate and Other operations.

(4) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and U.S. dollar-denominated interest income. The amounts shown represent the present value of future U.S. dollar cash flows.

Impact of foreign currency exchange rate movements on earnings

Forward currency hedging program

The financial results of our International Insurance segment reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which certain of the segment’s non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. The fixed rates are determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment’s U.S. dollar-equivalent earnings. Pursuant to this program, Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings for certain currencies in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of non-yen denominated earnings that will be generated by non-yen denominated products and investments. For the six months ended June 30, 2015, approximately 38% of the segment’s earnings were yen-based and, as of June 30, 2015, we have hedged 100% of expected yen-based earnings for 2015 and 92%, 50% and 8% of expected yen-based earnings for 2016, 2017 and 2018, respectively. To the extent currently unhedged, our International Insurance segment’s future expected U.S. dollar-equivalent earnings will be impacted by yen exchange rate movements.

As a result of this intercompany arrangement, our International Insurance segment's results for 2015 and 2014 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 91 and 82 yen per U.S. dollar, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1120 and 1150 Korean won per U.S. dollar, respectively. Since determination of the fixed currency exchange rates for each respective year is impacted by changes in foreign currency exchange rates over time, the segment's future earnings will ultimately be impacted by these changes in exchange rates.

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

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| International Insurance Segment: | | | | |
| Impact of intercompany arrangement(1) | $85 | $70 | $165 | $143 |
| Corporate and Other operations: | | | | |
| Impact of intercompany arrangement(1) | (85) | (70) | (165) | (143) |
| Settlement gains (losses) on forward currency contracts | 78 | 66 | 161 | 144 |
| Net benefit (detriment) to Corporate and Other operations | (7) | (4) | (4) | 1 |
| Net impact on consolidated revenues and adjusted operating income | $78 | $66 | $161 | $144 |

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

As of June 30, 2015 and December 31, 2014, the notional amounts of these forward currency contracts were $2.3 billion and $2.6 billion, respectively, of which $1.8 billion and $2.0 billion, respectively, were related to our Japanese insurance operations.

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

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

As discussed above, we have implemented a new structure in Gibraltar Life that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure became effective for financial reporting beginning in the first quarter of 2015 and will minimize future volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement. Included in “Realized investment gains (losses), net, and related adjustments” were net gains of $104 million and net losses of $224 million for the three months ended June 30, 2015 and 2014, respectively, and net gains of $132 million and net losses of $7 million for the six months ended June 30, 2015 and 2014, respectively. For the U.S. and Australian dollar-denominated assets that were transferred under the new structure in Gibraltar Life, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in AOCI

totaled $6.0 billion and will be recognized in earnings within “Realized investment gains (losses), net” over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 3% of the initial $6.0 billion of gains will be recognized throughout the remainder of 2015 and approximately 9% will be recognized in 2016, with the remainder primarily recognized over the following ten years. As of June 30, 2015, the remaining net cumulative unrealized investment gains balance related to these assets was $5.7 billion.

International Insurance

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect

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of foreign currency fluctuations, were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 91 yen per U.S. dollar and Korean won at a rate of 1120 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the "Sales Results" section below reflect translation based on these same uniform exchange rates.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Operating results: | | | | |
| Revenues: | | | | |
| Life Planner operations | $2,231 | $2,261 | $4,673 | $4,740 |
| Gibraltar Life and Other operations | 2,806 | 2,991 | 5,270 | 5,587 |
| Total revenues | 5,037 | 5,252 | 9,943 | 10,327 |
| Benefits and expenses: | | | | |
| Life Planner operations | 1,850 | 1,879 | 3,853 | 3,939 |
| Gibraltar Life and Other operations | 2,345 | 2,489 | 4,414 | 4,667 |
| Total benefits and expenses | 4,195 | 4,368 | 8,267 | 8,606 |
| Adjusted operating income: | | | | |
| Life Planner operations | 381 | 382 | 820 | 801 |
| Gibraltar Life and Other operations | 461 | 502 | 856 | 920 |
| Total adjusted operating income | 842 | 884 | 1,676 | 1,721 |
| Realized investment gains (losses), net, and related adjustments(1) | 11 | 36 | 451 | 571 |
| Related charges | (20) | (11) | (43) | (20) |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net | 50 | 53 | 106 | (19) |
| Change in experience-rated contractholder liabilities due to asset value changes | (50) | (53) | (106) | 19 |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (2) | (2) | 6 | 2 |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | $831 | $907 | $2,090 | $2,274 |

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

Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Life Planner operations decreased $1 million including a net unfavorable impact of $12 million from currency fluctuations, inclusive of the currency hedging program discussed above. Results for the current quarter also included a net charge of $11 million from our annual review and update of assumptions and other refinements.

Excluding the effect of these items, adjusted operating income of our Life Planner operations increased $22 million, primarily reflecting the growth of business in force driven by sales results and continued strong persistency, partially offset by the impact of higher expenses supporting business growth, less favorable mortality experience and lower net investment spread results.

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Adjusted operating income from our Gibraltar Life and Other operations decreased $41 million including a net unfavorable impact of $26 million from currency fluctuations, inclusive of the currency hedging program discussed above. Results for the current quarter also included a net charge of $10 million from our annual review and update of assumptions and other refinements.

Excluding the effect of these items, adjusted operating income from our Gibraltar Life and Other operations decreased $5 million primarily reflecting the absence of gains on sales of fixed assets that occurred in the second quarter of 2014, largely offset by a higher contribution from net investment results.

Six Month Comparison. Adjusted operating income from our Life Planner operations increased $19 million including a net unfavorable impact of $29 million from currency fluctuations. Results for the first six months of 2015 also included a net charge of $11 million related to our annual review and update of assumptions and other refinements, while the results for the first six months of 2014 included a $16 million net unfavorable impact primarily from reserve refinements in our Korean operation.

Excluding the effect of these items, adjusted operating income increased $43 million primarily reflecting growth of business in force driven by sales results and continued strong persistency, partially offset by the impact of higher expenses supporting business growth and lower net investment spread results.

Adjusted operating income from our Gibraltar Life and Other operations decreased $64 million including a net unfavorable impact of $45 million from currency fluctuations. Results for the first six months of 2015 also included a net charge of $10 million related to our annual review and update of assumptions and other refinements.

Excluding the effect of these items, adjusted operating income from our Gibraltar Life and Other operations decreased $9 million primarily reflecting the absence of gains on sales of fixed assets that occurred during the first six months of 2014 and higher expenses, partially offset by a higher contribution from net investment results.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Life Planner operations, as shown in the table above under "—Operating Results," decreased $30 million including a net unfavorable impact of $256 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $226 million. This increase was primarily driven by higher premiums and policy charges and fee income of $165 million related to growth of business in force. Net investment income increased $45 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

Benefits and expenses of our Life Planner operations, as shown in the table above under "—Operating Results," decreased $29 million including a net favorable impact of $244 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $215 million. Policyholder benefits, including changes in reserves, increased $172 million primarily driven by business growth. General and administrative expenses, net of capitalization, increased $29 million primarily due to higher distribution costs and other costs supporting business growth.

Revenues from our Gibraltar Life and Other operations decreased $185 million including a net unfavorable impact of $295 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $110 million, driven by a $117 million increase in premiums and policy charges and fee income due to business growth and a $25 million increase in net investment income related to a higher contribution from net investment spreads. These impacts were partially offset by a decline of $28 million in other income, reflecting the absence of gains on sales of fixed assets that occurred in the second quarter of 2014.

Benefits and expenses of our Gibraltar Life and Other operations decreased $144 million including a net favorable impact of $269 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $125 million, driven by an increase of $148 million in policyholder benefits, including changes in reserves, due to business growth.

Six Month Comparison. Revenues from our Life Planner operations decreased $67 million including a net unfavorable impact of $507 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $440 million. This increase was primarily driven by higher premiums and policy charges and fee income of $326 million related to growth of business in force. Net investment income increased $83 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

Benefits and expenses of our Life Planner operations decreased $86 million including a net favorable impact of $478 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $392 million. Policyholder benefits, including changes in reserves, increased $313 million primarily driven by business growth. General and administrative expenses, net of capitalization, increased $60 million primarily due to higher distribution costs and other costs supporting business growth.

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Revenues from our Gibraltar Life and Other operations decreased $317 million including a net unfavorable impact of $524 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $207 million, driven by a $180 million increase in premiums and policy charges and fee income due to business growth. The increase in revenues also includes the impact of a $90 million increase in net investment income reflecting higher income from non-coupon investments and higher net investment spreads. These increases were partially offset by a decline of $53 million in other income, primarily reflecting the absence of gains on sales of fixed assets that occurred in the first six months of 2014.

Benefits and expenses of our Gibraltar Life and Other operations decreased $253 million including a net favorable impact of $479 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $226 million driven by an increase of $250 million in policyholder benefits, including changes in reserves, related to business growth.

Sales Results

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Annualized new business premiums: | | | | |
| On an actual exchange rate basis: | | | | |
| Life Planner operations | $258 | $272 | $574 | $603 |
| Gibraltar Life | 413 | 437 | 770 | 798 |
| Total | $671 | $709 | $1,344 | $1,401 |
| On a constant exchange rate basis: | | | | |
| Life Planner operations | $301 | $275 | $667 | $624 |
| Gibraltar Life | 476 | 457 | 890 | 841 |
| Total | $777 | $732 | $1,557 | $1,465 |

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

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

| | Three Months Ended June 30, 2015 | | | | | Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Life | Accident & Health | Retirement(1) | Annuity | Total | Life | Accident & Health | Retirement(1) | Annuity | Total |
| | (in millions) | | | | | | | | | |
| Life Planners | $190 | $30 | $ 64 | $17 | $301 | $168 | $26 | $ 69 | $12 | $275 |
| Gibraltar Life: | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Life Consultants | 106 | 18 | 36 | 44 | 204 | 108 | 17 | 33 | 62 | 220 |
| Banks(2) | 135 | 1 | 3 | 52 | 191 | 110 | 0 | 2 | 49 | 161 |
| Independent Agency | 35 | 9 | 20 | 17 | 81 | 33 | 11 | 14 | 18 | 76 |
| Subtotal | 276 | 28 | 59 | 113 | 476 | 251 | 28 | 49 | 129 | 457 |
| Total | $466 | $58 | $ 123 | $130 | $777 | $419 | $54 | $ 118 | $141 | $732 |

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

(2) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 6% and 53%, respectively, of total Japanese bank distribution channel annualized new business

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premiums, excluding annuity products, for the three months ended June 30, 2015, and 6% and 51%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended June 30, 2014.

Three Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $26 million. The increase reflects growth in both Life Planner headcount and productivity in our Brazilian operation as well as our Japanese operations, which resulted in an increase in sales of whole life products in Brazil and an increase in sales of term life products in Japan, partially offset by a net decline in sales of retirement income products.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased $19 million. Bank channel sales increased $30 million primarily driven by higher sales of U.S. dollar-denominated whole life products. Independent Agency sales increased $5 million primarily driven by higher sales of certain retirement products. Life Consultant sales declined $16 million primarily driven by lower sales of Australian dollar-denominated annuity products.

| | Six Months Ended June 30, 2015 | | | | | Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Life | Accident & Health | Retirement(1) | Annuity | Total | Life | Accident & Health | Retirement(1) | Annuity | Total |
| | (in millions) | | | | | | | | | |
| Life Planners | $420 | $66 | $ 152 | $29 | $667 | $338 | $57 | $ 198 | $31 | $624 |
| Gibraltar Life: | | | | | | | | | | |
| Life Consultants | 196 | 38 | 71 | 74 | 379 | 198 | 37 | 60 | 96 | 391 |
| Banks(2) | 254 | 2 | 6 | 100 | 362 | 211 | 1 | 4 | 95 | 311 |
| Independent Agency | 59 | 14 | 38 | 38 | 149 | 54 | 17 | 34 | 34 | 139 |
| Subtotal | 509 | 54 | 115 | 212 | 890 | 463 | 55 | 98 | 225 | 841 |
| Total | $929 | $120 | $ 267 | $241 | $1,557 | $801 | $112 | $ 296 | $256 | $1,465 |

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

(2) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 6% and 49%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the six months ended June 30, 2015, and 6% and 52%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the six months ended June 30, 2014.

Six Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $43 million. The increase primarily reflects growth in both Life Planner headcount and productivity in our Brazilian operation as well as our Japanese operations, which resulted in an increase in sales of whole life products and accident and health products in Brazil, and an increase in sales of term life products in Japan, partially offset by a net decline in sales of retirement income products. The increase also reflects higher sales of certain life protection products in our Korean operation.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased $49 million. Bank channel sales increased $51 million primarily driven by higher sales of U.S. dollar-denominated whole life products and certain yen-denominated life protection products. Independent Agency sales increased $10 million primarily driven by higher sales of yen-denominated term life products and certain retirement products. Life

Consultant sales declined $12 million primarily driven by lower sales of Australian dollar-denominated annuity products, partially offset by higher sales of yen-denominated whole life products and Australian dollar-denominated retirement products.

Corporate and Other

As described in our Annual Report on Form 10-K for the year ended December 31, 2014 under "Business—Financial Services Businesses—Corporate and Other," Corporate and Other includes corporate operations, after allocations to our business segments, and divested businesses other than those that qualify for "discontinued operations" accounting treatment under U.S. GAAP.



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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Operating results: | | | | |
| Capital debt interest expense | $(198) | $(152) | $(390) | $(298) |
| Operating debt interest expense, net of investment income | 25 | (20) | 60 | (64) |
| Pension and employee benefits | 51 | 42 | 83 | 86 |
| Other corporate activities(1) | (172) | (211) | (300) | (407) |
| Adjusted operating income | (294) | (341) | (547) | (683) |
| Realized investment gains (losses), net, and related adjustments | 1,070 | (822) | 145 | (1,981) |
| Related charges | (6) | (1) | 9 | (1) |
| Divested businesses | (109) | 47 | (34) | 120 |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (2) | (2) | (2) | (2) |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | $659 | $(1,119) | $(429) | $(2,547) |

(1) Includes consolidating adjustments.

Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $47 million. Operating debt interest expense, net of investment income, decreased $45 million, primarily reflecting increased income from higher levels of invested assets due to the transfer of invested assets to Corporate and Other operations related to the restructuring of the former Closed Block Business, the reassignment of operating debt to capital debt to support capital needs related to our living benefits hedging program described in "—Liquidity and Capital Resources—Capital Protection Framework" and lower levels of operating debt proceeds held in cash. Net charges from other corporate activities decreased $39 million, primarily reflecting a favorable impact from updates to reserves for certain retained obligations relating to pre-demutualization policyholders and the absence of costs related to the settlement of a legal matter in the prior period. Results from pension and employee benefits increased $9 million, primarily driven by a favorable comparative impact of retained benefit expenses. Results for the qualified pension plan were essentially flat as the net positive impact of lower interest rates was offset by the negative impact of our mortality assumption update as of December 31, 2014. These favorable impacts were partially offset by $46 million higher capital debt interest expense, primarily reflecting the reassignment of operating debt to capital debt, as discussed above.

Six Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $136 million. Operating debt interest expense, net of investment income, decreased $124 million, primarily reflecting increased income from higher levels of invested assets due to the transfer of invested assets to Corporate and Other operations related to the restructuring of the former Closed Block Business, the reassignment of operating debt to capital debt as discussed above and lower levels of operating debt proceeds held in cash. Net charges from other corporate activities decreased $107 million, primarily reflecting the absence of costs related to the settlement of a legal matter in the prior period and the absence of an unfavorable change in our estimate of payments arising from the use of the Social Security Master Death file matching criteria in the first half of 2014. Also contributing to the decrease was a gain on the sale of a home office property in 2015 and a favorable impact from updates to reserves for certain retained obligations relating to pre-demutualization policyholders. These favorable impacts were partially offset by $92 million higher Capital debt interest expense, primarily reflecting the reassignment of operating debt to capital debt, as discussed above.

Capital Protection Framework

Results related to our Capital Protection Framework hedging costs that are included in adjusted operating income were $4 million and $8 million for the three and six months ended June 30, 2015, respectively, and $10 million and $21 million for the three and six months ended June 30, 2014, respectively. "Realized investment gains (losses), net and related adjustments," which are excluded from adjusted operating income, included net gains of $1,091 million and $239 million for the three and six months ended June 30, 2015, respectively, and net losses of $705 million and $1,755 million for the three and six months ended June 30, 2014, respectively, primarily resulting from our utilization of capital management strategies to manage a portion of our interest rate risk. The net gains in 2015 were driven by increases in interest rates with respect to the exposures outstanding during the second quarter, while the net losses in 2014 were driven by declines in interest rates with respect to the exposures outstanding during the respective periods. For more information on our Capital Protection Framework, see "—Liquidity and Capital Resources—Capital Protection Framework."

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Divested Businesses

Divested Businesses Included in Corporate and Other

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Long-Term Care | $(94) | $47 | $(38) | $123 |
| Other | (15) | 0 | 4 | (3) |
| Total divested businesses income (loss) excluded from adjusted operating income | $(109) | $47 | $(34) | $120 |

Long-Term Care. Results for the second quarter and first six months of 2015 decreased compared to the prior year periods primarily reflecting realized losses in 2015, compared to realized gains in 2014, from derivatives used in duration management, driven by the impact of rising interest rates in 2015 and declining interest rates in 2014. The decrease also included an unfavorable impact from our annual review and update of assumptions and other refinements.

Other. Results for the second quarter of 2015 decreased compared to the prior year period primarily reflecting an unfavorable impact from our annual review and update of assumptions for individual health products. Results for the first six months of 2015 increased compared to the prior year period primarily due to a gain on sale of a real estate limited partnership interest of our former Financial Advisory business, partially offset by an unfavorable impact from our annual review and update of assumptions for individual health products.

Closed Block Division

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

Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block division will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition

to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of June 30, 2015, the excess of actual cumulative earnings over the expected cumulative earnings was $1,766 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $3,715 million at June 30, 2015, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Operating Results

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The following table sets forth the Closed Block division's results for the periods indicated.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| U.S. GAAP results: | | | | |
| Revenues | $1,525 | $1,835 | $3,244 | $3,401 |
| Benefits and expenses | 1,473 | 1,779 | 3,214 | 3,332 |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | $52 | $56 | $30 | $69 |

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

Three Month Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $4 million. Results for the second quarter of 2015 reflected a decrease in net realized investment gains of $203 million primarily due to unfavorable changes in the value of derivatives and lower gains from sales of fixed maturities. Net investment income decreased $96 million primarily reflecting the sale and transfer of invested assets as a result of the restructuring of the former Closed Block Business and lower income from non-coupon investments. As a result of the above and other variances, a $67 million reduction in the policyholder dividend obligation was recorded in the second quarter of 2015, compared to a $201 million increase in the second quarter of 2014. As noted above, as of June 30, 2015, the excess of actual cumulative earnings over the expected cumulative earnings was $1,766 million. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see "—Realized Investment Gains and Losses."

Six Month Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $39 million. Results for the first six months of 2015 reflected a $162 million decrease in net investment income primarily due to the sale and transfer of invested assets as a result of the restructuring of the former Closed Block Business and lower income from non-coupon investments. Net insurance activity results declined $43 million primarily reflecting higher dividends to policyholders as a result of an increase in the 2015 dividend scale and unfavorable mortality in the first quarter of 2015, partially offset by the runoff of policies in force. Net realized investment gains increased $33 million reflecting favorable changes in the value of derivatives. As a result of the above and other variances, a $208 million increase in the policyholder dividend obligation was recorded in the first six months of 2015, compared to a $300 million increase in the first six months of 2014.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $310 million, primarily driven by a $203 million decrease in net realized investment gains and a $96 million decrease in net investment income, as discussed above. In addition, premiums declined $9 million, primarily due to the runoff of policies in force.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $306 million, primarily driven by a $263 million decrease in dividends to policyholders, including a $268 million decrease in the policyholder dividend obligation expense reflecting lower cumulative earnings and a $5 million increase in dividends paid and accrued to policyholders as a result of an increase in the 2015 dividend scale. The decrease in benefits and expenses also reflected a $16 million decrease in policyholders' benefits, including changes in reserves, due to the runoff of

policies in force. General and administrative expenses, inclusive of interest expense, decreased $28 million, primarily driven by the decrease in interest expense related to the senior secured notes issued by Prudential Holdings LLC, which were redeemed in the fourth quarter of 2014.

Six Month Comparison. Revenues decreased $157 million, primarily driven by a $162 million decrease in net investment income, partially offset by a $33 million increase in net realized investment gains, as discussed above. In addition, premiums declined $14 million, primarily due to the runoff of policies in force.

Benefits and expenses decreased $118 million, primarily driven by a $77 million decrease in dividends to policyholders including a $92 million decrease in the policyholder dividend obligation expense reflecting lower cumulative earnings and a $15 million increase in dividends paid and accrued to policyholders as a result of an increase in the 2015 dividend scale. General and

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administrative expenses, inclusive of interest expense, decreased $54 million, primarily driven by the decrease in interest expense related to the senior secured notes issued by Prudential Holdings LLC, which were redeemed in the fourth quarter of 2014.

Income Taxes

Our income tax provision, on a consolidated basis, amounted to an income tax expense of $679 million in the second quarter of 2015, compared to an expense of $404 million in the second quarter of 2014. The increased expense was primarily due to an increase in “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” in the current quarter compared to the year ago quarter. In addition, during the fourth quarter of 2014, we changed the repatriation assertion for our Japanese insurance companies with respect to post-2013 operating earnings and AOCI, except realized and unrealized capital gains and losses. On March 31, 2015, the government of Japan enacted a reduction in the Japanese tax rate by approximately 2%, effective April 1, 2015. Our income tax provision for the second quarter of 2015 includes $70 million of additional tax expense related to re-measurement of Japan deferred tax assets as a result of the tax rate reduction that was partially offset by a tax benefit from the lower Japan tax rate for permanently reinvested earnings of our Japanese insurance operations.

Our income tax provision, on a consolidated basis, amounted to an income tax expense of $1,378 million in the first six months of 2015 compared to an expense of $877 million in the first six months of 2014. The increased expense was primarily due an increase in “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” in the first six months of 2015 compared to the first six months of 2014. In addition, due to the change in repatriation assertion for our Japanese insurance companies and tax rate reduction discussed above, our income tax provision for the first six months in 2015 includes $75 million of additional tax expense related to re-measurement of Japan deferred tax assets that was partially offset by a tax benefit from the lower Japan tax rate for permanently reinvested earnings of our Japanese insurance operations.

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

Discontinued Operations

Included within net income are the results of businesses that are reflected as discontinued operations under U.S. GAAP. Income (loss) from discontinued operations, net of taxes, was $0 million and $4 million for the three months ended June 30, 2015 and 2014, respectively, and $0 million and $8 million for the six months ended June 30, 2015 and 2014, respectively. For additional information regarding discontinued operations, see Note 3 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Experience-Rated Contractholder Liabilities,
Trading Account Assets Supporting Insurance Liabilities and Other Related Investments

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

are reported in "Realized investment gains (losses), net." The commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the statements of financial position as "Commercial mortgage and other loans." Gains and losses on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in "Realized investment gains (losses), net."

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

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

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Retirement Segment: | | | | |
| Investment gains (losses) on: | | | | |
| Trading account assets supporting insurance liabilities, net | $(270) | $172 | $(243) | $345 |
| Derivatives | 12 | (36) | 122 | (82) |
| Commercial mortgages and other loans | 1 | (2) | 4 | (3) |
| Change in experience-rated contractholder liabilities due to asset value changes(1)(2) | 284 | (136) | 143 | (251) |
| Net gains (losses) | $27 | $(2) | $26 | $9 |
| International Insurance Segment: | | | | |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net | $50 | $53 | $106 | $(19) |
| Change in experience-rated contractholder liabilities due to asset value changes | (50) | (53) | (106) | 19 |
| Net gains (losses) | $0 | $0 | $0 | $0 |
| Total: | | | | |
| Investment gains (losses) on: | | | | |
| Trading account assets supporting insurance liabilities, net | $(220) | $225 | $(137) | $326 |
| Derivatives | 12 | (36) | 122 | (82) |
| Commercial mortgages and other loans | 1 | (2) | 4 | (3) |
| Change in experience-rated contractholder liabilities due to asset value changes(1)(2) | 234 | (189) | 37 | (232) |
| Net gains (losses) | $27 | $(2) | $26 | $9 |

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(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $3 million as of both June 30, 2015 and 2014. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are decreases of $30 million and increases of $10 million for the three months ended June 30, 2015 and 2014, respectively, and decreases of $25 million and increases of $17 million for the six months ended June 30, 2015 and 2014, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial

mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

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

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Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

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

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. The table also provides details about these assets and liabilities excluding those held in the Closed Block division. We believe the amounts excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 6 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

| | As of June 30, 2015 | | | | As of December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | PFI excluding Closed Block Division | | Closed Block Division | | PFI excluding Closed Block Division | | Closed Block Division | |
| | Total at Fair Value | Total Level 3(1) | Total at Fair Value | Total Level 3(1) | Total at Fair Value | Total Level 3(1) | Total at Fair Value | Total Level 3(1) |
| | (in millions) | | | | | | | |
| Fixed maturities, available-for-sale | $250,739 | $ 4,478 | $39,324 | $ 869 | $255,424 | $ 4,655 | $43,666 | $ 1,011 |
| Trading account assets: | | | | | | | | |
| Fixed maturities | 27,857 | 787 | 190 | 0 | 26,965 | 550 | 198 | 0 |
| Equity securities | 2,287 | 544 | 121 | 60 | 2,139 | 555 | 152 | 108 |
| All other(2) | 2,561 | 12 | 0 | 0 | 1,683 | 7 | 0 | 0 |
| Subtotal | 32,705 | 1,343 | 311 | 60 | 30,787 | 1,112 | 350 | 108 |
| Equity securities, available-for-sale | 6,671 | 257 | 3,230 | 2 | 6,339 | 272 | 3,522 | 3 |
| Commercial mortgage and other loans | 391 | 0 | 0 | 0 | 380 | 0 | 0 | 0 |
| Other long-term investments | 1,514 | 1,284 | 430 | 430 | 1,441 | 1,216 | 331 | 331 |
| Short-term investments | 4,226 | 0 | 898 | 0 | 5,898 | 0 | 1,837 | 0 |
| Cash equivalents | 11,478 | 0 | 969 | 0 | 10,647 | 0 | 1,198 | 0 |
| Other assets | 115 | 2 | 0 | 0 | 115 | 2 | 0 | 0 |
| Subtotal excluding separate account assets | 307,839 | 7,364 | 45,162 | 1,361 | 311,031 | 7,257 | 50,904 | 1,453 |
| Separate account assets | 296,341 | 25,855 | 0 | 0 | 296,435 | 24,662 | 0 | 0 |
| Total assets | $604,180 | $ 33,219 | $45,162 | $ 1,361 | $607,466 | $ 31,919 | $50,904 | $ 1,453 |
| Future policy benefits | $5,478 | $ 5,478 | $0 | $ 0 | $8,182 | $ 8,182 | $0 | $ 0 |
| Other liabilities(2) | 152 | 2 | 1 | 0 | 228 | 5 | 0 | 0 |
| Notes issued by consolidated variable interest entities (“VIE”) | 7,434 | 7,434 | 0 | 0 | 6,033 | 6,033 | 0 | 0 |
| Total liabilities | $13,064 | $ 12,914 | $1 | $ 0 | $14,443 | $ 14,220 | $0 | $ 0 |

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 5.5% and 3.0%, respectively, as of June 30, 2015, and 5.3% and 2.9%, respectively, as of December 31, 2014.

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

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of

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judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The following sections provide information regarding certain assets and liabilities which are valued using Level 3 inputs and could have a significant impact on our results of operations.

Fixed Maturity and Equity Securities

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internally-developed valuation model uses significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities for PFI excluding the Closed Block division included approximately $4.3 billion of public fixed maturities as of June 30, 2015 with values primarily based on indicative broker quotes, and approximately $1.0 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants have access to this data.

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

Other Long-Term Investments

Other long-term investments classified in Level 3 primarily include real estate held in consolidated investment funds and fund investments where the fair value option has been elected. The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments are reflected within Level 3. Consolidated real estate investment funds classified as Level 3 for PFI excluding the Closed Block division totaled approximately $0.4 billion as of June 30, 2015. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments are included within Level 3. Investments in these funds for PFI excluding the Closed Block division included in Level 3 totaled approximately $0.9 billion as of June 30, 2015.

Separate Account Assets

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

Variable Annuity Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including GMAB, guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum income and withdrawal benefits (“GMIWB”). These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in “Realized investment gains (losses), net.” The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 for PFI excluding the Closed Block division were a net liability of $5.5 billion as of June 30, 2015. For additional information, see “—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities.”

Notes Issued by Consolidated VIEs

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

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

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Realized Investment Gains and Losses

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

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

The level of other-than-temporary impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. We may also realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. For additional information regarding our policies regarding other-than-temporary-impairments for fixed maturity and equity securities, see Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

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

The following table sets forth "Realized investment gains (losses), net," by investment type as well as related charges and adjustments for the periods indicated. For additional details regarding adjusted operating income, see Note 11 to

the Unaudited Interim Consolidated Financial Statements.

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Realized investment gains (losses), net: | | | | |
| PFI excluding Closed Block division | $(36) | $241 | $1,952 | $312 |
| Closed Block division | 165 | 368 | 538 | 505 |
| Consolidated realized investment gains (losses), net | $129 | $609 | $2,490 | $817 |
| PFI excluding Closed Block Division: | | | | |
| Realized investment gains (losses), net: | | | | |
| Fixed maturity securities | $312 | $183 | $672 | $379 |
| Equity securities | 33 | 31 | 78 | 64 |
| Commercial mortgage and other loans | 20 | 8 | 30 | 16 |
| Derivative instruments | (415) | 14 | 1,129 | (155) |
| Other | 14 | 5 | 43 | 8 |
| Total | $(36) | $241 | $1,952 | $312 |
| Related adjustments | (24) | (443) | (350) | (465) |
| Realized investment gains (losses), net, and related adjustments | (60) | (202) | 1,602 | (153) |
| Related charges | 346 | (71) | (265) | (128) |
| Realized investment gains (losses), net, and related charges and adjustments | $286 | $(273) | $1,337 | $(281) |
| Closed Block Division: | | | | |
| Realized investment gains (losses), net: | | | | |
| Fixed maturity securities | $59 | $185 | $168 | $246 |
| Equity securities | 194 | 137 | 269 | 189 |
| Commercial mortgage and other loans | 0 | 0 | 1 | 0 |
| Derivative instruments | (88) | 46 | 106 | 70 |
| Other | 0 | 0 | (6) | 0 |
| Total | $165 | $368 | $538 | $505 |

2015 to 2014 Three Month Comparison

PFI excluding Closed Block Division

Net realized investment losses were $36 million in the second quarter of 2015, compared to net realized investment gains of $241 million in the second quarter of 2014.

Net realized gains on fixed maturity securities were $312 million and $183 million in the second quarter of 2015 and 2014, respectively, as set forth in the following table:

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| | Three Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Realized investment gains (losses), net—Fixed Maturity Securities—PFI excluding Closed Block Division | | |
| Gross realized investment gains: | | |
| Gross gains on sales and maturities(1) | $350 | $250 |
| Private bond prepayment premiums | 9 | 21 |
| Total gross realized investment gains | 359 | 271 |
| Gross realized investment losses: | | |
| Net other-than-temporary impairments recognized in earnings(2) | (18) | (17) |
| Gross losses on sales and maturities(1) | (29) | (67) |
| Credit related losses on sales | 0 | (4) |
| Total gross realized investment losses | (47) | (88) |
| Realized investment gains (losses), net—Fixed Maturity Securities | $312 | $183 |
| Net gains (losses) on sales and maturities—Fixed Maturity Securities(1) | $321 | $183 |

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.

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

Net gains on sales and maturities of fixed maturity securities were $321 million and $183 million in the second quarter of 2015 and 2014, respectively, primarily due to sales and maturities of U.S. dollar-denominated securities within our International Insurance segment. Gains associated with foreign exchange remeasurement on assets that were transferred under the new structure in Gibraltar Life will be recognized in earnings over time as these assets mature or are sold. See "Results of Operations by Segment–International Insurance Division" above. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the second quarter of 2015 and 2014.

Net realized gains on equity securities were $33 million and $31 million in the second quarter of 2015 and 2014, respectively, and included net gains on sales of equity securities of $42 million and $37 million, respectively. The gains were offset by other-than-temporary impairments of $9 million and $6 million in 2015 and 2014, respectively. See below for additional information regarding other-than-temporary impairments of equity securities in the second quarter of 2015 and of 2014.

Net realized gains on commercial mortgage and other loans in the second quarter of 2015 were $20 million, primarily driven by servicing revenue of $10 million in our Asset Management business and a net decrease in the loan loss reserve of $6 million. For additional information regarding our commercial mortgage and other loan loss reserves see "—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loan Quality."

Net realized losses on derivatives were $415 million in the second quarter of 2015, compared to net realized gains of $14 million in the second quarter of 2014. The net losses in the second quarter of 2015 primarily reflect $520 million of losses on interest rate derivatives used to manage duration as interest rates increased and $300 million of losses on foreign currency derivatives used to hedge portfolio assets in our Japan operations due to the weakening of the Japanese yen against the U.S. dollar and in our U.S. businesses due to the U.S. dollar weakening against the euro. Partially offsetting these losses were net gains of $393 million on product related embedded derivatives and related

hedge positions mainly associated with certain variable annuity contracts, and $41 million of gains primarily representing risk fees earned on synthetic guaranteed investment contracts which are accounted for as derivatives under U.S. GAAP. The net gains in the second quarter of 2014 primarily reflect $309 million of gains on interest rate derivatives used to manage duration as interest rates decreased and $43 million of gains representing risk fees earned on synthetic guaranteed investment contracts. Offsetting these gains were net losses of $354 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts.

Related adjustments include the portions of "Realized investment gains (losses), net" that are included in adjusted operating income and the portions of "Other income" and "Net investment income" that are excluded from adjusted operating income. These adjustments are made to arrive at "Realized investment gains (losses), net, and related adjustments" which are excluded from adjusted operating income. Results for the second quarter of 2015 include net negative related adjustments of $24 million driven by settlements on interest rate and currency derivatives, partially offset by the impact of foreign currency exchange rate movements

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on certain non-yen denominated assets and liabilities within our Japan insurance operations. Results for the second quarter of 2014 include net negative related adjustments of $443 million driven by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japan insurance operations, and by settlements on interest rate and currency derivatives. We implemented a new structure in Gibraltar Life, effective for financial reporting beginning in the first quarter of 2015, which has minimized volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement. For additional information, see "—Results of Operations by Segment—International Insurance Division" above.

Charges that relate to "Realized investment gains (losses), net" are also excluded from adjusted operating income, and may be reflected as net charges or net benefits. Results for the second quarter of 2015 include a net related benefit of $346 million, compared to a net related charge of $71 million for the second quarter of 2014. Both periods' results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves. For additional information, see Note 11 to the Unaudited Interim Consolidated Financial Statements.
During the second quarter of 2015, we recorded other-than-temporary impairments of $34 million in earnings, compared to $23 million in the second quarter of 2014. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the PFI excluding the Closed Block division by asset type, and for fixed maturity securities, by reason.

| | Three Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments recorded in earnings—PFI excluding Closed Block Division(1) | | |
| Public fixed maturity securities | $3 | $10 |
| Private fixed maturity securities | 15 | 7 |
| Total fixed maturity securities | 18 | 17 |
| Equity securities | 9 | 6 |
| Other invested assets(2) | 7 | 0 |
| Total | $34 | $23 |

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments on fixed maturity securities recorded in earnings—PFI excluding Closed Block Division(1) | | |
| Due to credit events or adverse conditions of the respective issuer(2) | $17 | $11 |
| Due to other accounting guidelines(3) | 1 | 6 |
| Total | $18 | $17 |

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

impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

(3) Primarily represents circumstances where securities with losses from foreign currency exchange rate movements approach maturity.

Fixed maturity security other-than-temporary impairments in the second quarter of 2015 were concentrated in the industrial other, utility and consumer non-cyclical sectors within corporate securities. Fixed maturity security other-than-temporary impairments in the second quarter of 2014 were concentrated in the consumer cyclical, finance, and utility sectors within corporate securities and asset backed securities. In both periods, these other-than-temporary impairments were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

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Equity security other-than-temporary impairments in the second quarter of 2015 and 2014 were primarily driven by the extent and duration of declines in values.

Other invested assets other-than-temporary impairments in the second quarter of 2015 were primarily due to a decline in value of investments in limited partnerships within the energy sector.

Closed Block Division

Net realized investment gains were $165 million and $368 million in the second quarter of 2015 and 2014, respectively.

Net realized gains on fixed maturity securities were $59 million and $185 million in the second quarter of 2015 and 2014, respectively, as set forth in the following table.

| | Three Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Realized investment gains (losses), net—Fixed Maturity Securities—Closed Block Division | | |
| Gross realized investment gains: | | |
| Gross gains on sales and maturities(1) | $76 | $198 |
| Private bond prepayment premiums | 6 | 7 |
| Total gross realized investment gains | 82 | 205 |
| Gross realized investment losses: | | |
| Net other-than-temporary impairments recognized in earnings(2) | (11) | (9) |
| Gross losses on sales and maturities(1) | (12) | (9) |
| Credit related losses on sales | 0 | (2) |
| Total gross realized investment losses | (23) | (20) |
| Realized investment gains (losses), net—Fixed Maturity Securities | $59 | $185 |
| Net gains (losses) on sales and maturities—Fixed Maturity Securities(1) | $64 | $189 |

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.

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

Net realized gains on equity securities were $194 million and $137 million in the second quarter of 2015 and 2014, respectively, primarily driven by net gains on sales of equity securities. See below for additional information regarding other-than-temporary impairments of fixed maturity securities in the second quarter of 2015 and 2014.

Net realized losses on derivatives were $88 million in the second quarter of 2015, compared to net realized gains of $46 million in the second quarter of 2014. The net losses in the second quarter of 2015 primarily reflect net losses of $66 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against the euro and net losses of $20 million on interest rate derivatives primarily used to manage duration as interest rates increased. The net gains in the second quarter of 2014 primarily reflect net gains of $28 million on interest rate derivatives primarily used to manage duration and net gains of $17 million on TBA forward contracts as interest rates decreased.

During the second quarter of 2015, we recorded other-than-temporary impairments of $18 million in earnings, compared to $10 million in the second quarter of 2014. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block division by asset type, and for fixed maturity securities, by reason.

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| | Three Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments recorded in earnings—Closed Block Division(1) | | |
| Public fixed maturity securities | $2 | $4 |
| Private fixed maturity securities | 9 | 5 |
| Total fixed maturity securities | 11 | 9 |
| Equity securities | 2 | 1 |
| Other invested assets(2) | 5 | 0 |
| Total | $18 | $10 |

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments on fixed maturity securities recorded in earnings—Closed Block Division(1) | | |
| Due to credit events or adverse conditions of the respective issuer(2) | $11 | $9 |
| Due to other accounting guidelines | 0 | 0 |
| Total | $11 | $9 |

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

Fixed maturity security other-than-temporary impairments in the second quarter of 2015 were concentrated in the industrial other, utility and consumer non-cyclical sectors within corporate securities. Fixed maturity security other-than-temporary impairments in the second quarter of 2014 were concentrated in the consumer cyclical, communications and utility sectors within corporate securities. In both periods these other-than-temporary impairments reflect adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in the second quarter of 2015 were primarily due to the extent and duration of declines in values.

Other-than-temporary impairments in the second quarter of 2015 were primarily due to declines in value of investments in limited partnerships in the energy sector.

2015 to 2014 Six Month Comparison

PFI excluding Closed Block Division

Net realized investment gains were $1,952 million and $312 million in the first six months of 2015 and 2014, respectively.

Net realized gains on fixed maturity securities were $672 million and $379 million in the first six months of 2015 and 2014, respectively, as set forth in the following table.

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| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Realized investment gains (losses), net—Fixed Maturity Securities—PFI excluding Closed Block Division | | |
| Gross realized investment gains: | | |
| Gross gains on sales and maturities(1) | $737 | $572 |
| Private bond prepayment premiums | 29 | 33 |
| Total gross realized investment gains | 766 | 605 |
| Gross realized investment losses: | | |
| Net other-than-temporary impairments recognized in earnings(2) | (22) | (27) |
| Gross losses on sales and maturities(1) | (69) | (176) |
| Credit related losses on sales | (3) | (23) |
| Total gross realized investment losses | (94) | (226) |
| Realized investment gains (losses), net—Fixed Maturity Securities | $672 | $379 |
| Net gains (losses) on sales and maturities—Fixed Maturity Securities(1) | $668 | $396 |

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.

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

Net gains on sales and maturities of fixed maturity securities in the first six months of 2015 and 2014 were $668 million and $396 million, respectively, primarily due to maturities of U.S. dollar-denominated securities within our International Insurance segment. Gains associated with foreign exchange remeasurement on assets that were transferred under the new structure in Gibraltar Life will be recognized in earnings over time as these assets mature or are sold. See "Results of Operations by Segment–International Insurance Division" above. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first six months of 2015 and 2014.

Net realized gains on equity securities were $78 million and $64 million in the first six months of 2015 and 2014, respectively, and included net gains on sales of equity securities of $92 million and $78 million, respectively. Both periods' gains were primarily offset by other-than-temporary impairments of $14 million. See below for additional information regarding other-than-temporary impairments of equity securities in the first six months of 2014 and of 2013.

Net realized gains on commercial mortgage and other loans in the first six months of 2015 were $30 million, primarily driven by servicing revenue of $19 million in our Asset Management businesses and a net decrease in the loan loss reserve of $9 million. For additional information regarding our commercial mortgage and other loan loss reserves, see "—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loan Quality."

Net realized gains on derivatives were $1,129 million in the first six months of 2015, compared to net realized losses of $155 million in the first six months of 2014. The net gains in the first six months of 2015 primarily reflect net gains of $1,117 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. The net losses in the first six months of 2014 primarily reflect net losses of $1,040 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. Partially offsetting these losses are net gains of $746 million on interest rate derivatives used to manage

duration as interest rates decreased, and $86 million of gains representing risk fees earned on synthetic guaranteed investment contracts.

Related adjustments for the first six months of 2015 include net negative related adjustments of $350 million compared to net negative related adjustments of $465 million for the first six months of 2014. Results for the first six months of 2015 were driven by settlements on interest rate and currency derivatives, partially offset by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japan insurance operations. Results for the first six months of 2014 were driven by settlements on interest rate and currency derivatives.

Related charges include net related charges of $265 million for the first six months of 2015 compared to net related charges of $128 million for the first six months of 2014. Both periods' results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves.

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During the first six months of 2015, we recorded other-than-temporary impairments of $62 million in earnings, compared to $41 million in the first six months of 2014. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the PFI excluding the Closed Block division by asset type, and for fixed maturity securities, by reason.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments recorded in earnings—PFI excluding Closed Block Division(1) | | |
| Public fixed maturity securities | $6 | $16 |
| Private fixed maturity securities | 16 | 11 |
| Total fixed maturity securities | 22 | 27 |
| Equity securities | 14 | 14 |
| Other invested assets(2) | 26 | 0 |
| Total | $62 | $41 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments on fixed maturity securities recorded in earnings—PFI excluding Closed Block Division(1) | | |
| Due to credit events or adverse conditions of the respective issuer(2) | $21 | $18 |
| Due to other accounting guidelines(3) | 1 | 9 |
| Total | $22 | $27 |

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

Fixed maturity security other-than-temporary impairments in the first six months of 2015 were concentrated in the industrial other, consumer cyclical and utility sectors within corporate securities. Fixed maturity security other-than-temporary impairments in the first six months of 2014 were concentrated in the communications, utility and consumer non-cyclical sectors within corporate securities. In both periods, these other-than-temporary impairments were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other

adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in the first six months of 2015 and 2014, were primarily due to the extent and duration of declines in values.

Other invested assets other-than-temporary impairments in the first six months of 2015 were primarily due to declines in value of investments in limited partnerships in the energy sector.

Closed Block Division

Net realized investment gains were $538 million and $505 million in the first six months of 2015 and 2014, respectively.

Net realized gains on fixed maturity securities were $168 million and $246 million in the first six months of 2015 and 2014, respectively, as set forth in the following table.

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| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Realized investment gains (losses), net—Fixed Maturity Securities—Closed Block Division | | |
| Gross realized investment gains: | | |
| Gross gains on sales and maturities(1) | $188 | $281 |
| Private bond prepayment premiums | 20 | 15 |
| Total gross realized investment gains | 208 | 296 |
| Gross realized investment losses: | | |
| Net other-than-temporary impairments recognized in earnings(2) | (15) | (15) |
| Gross losses on sales and maturities(1) | (25) | (27) |
| Credit related losses on sales | 0 | (8) |
| Total gross realized investment losses | (40) | (50) |
| Realized investment gains (losses), net—Fixed Maturity Securities | $168 | $246 |
| Net gains (losses) on sales and maturities—Fixed Maturity Securities(1) | $163 | $254 |

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.

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

Net realized gains on equity securities were $269 million and $189 million in the first six months of 2015 and 2014, respectively, resulting from net gains on sales of equity securities. See below for additional information regarding the other-than-temporary impairments of equity securities in the first six months of 2015 and 2014.

Net realized gains on derivatives were $106 million in the first six months of 2015, compared to net realized gains of $70 million in the first six months of 2014. The net gains in the first six months of 2015 primarily reflect net gains of $110 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against the euro. The net gains in the first six months of 2014 primarily reflect net gains of $47 million on interest rate derivatives primarily used to manage duration and net gains of $30 million on TBA forward contracts as interest rates decreased.

During the first six months of 2015, we recorded other-than-temporary impairments of $29 million in earnings, compared to $18 million in the first six months of 2014. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block division by asset type, and for fixed maturity securities, by reason.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments recorded in earnings—Closed Block Division(1) | | |
| Public fixed maturity securities | $4 | $9 |
| Private fixed maturity securities | 11 | 6 |
| Total fixed maturity securities | 15 | 15 |
| Equity securities | 3 | 3 |
| Other invested assets(2) | 11 | 0 |

| Total | $29 | $18 |
| --- | --- | --- |

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

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

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| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Other-than-temporary impairments on fixed maturity securities recorded in earnings—Closed Block Division(1) | | |
| Due to credit events or adverse conditions of the respective issuer(2) | $15 | $14 |
| Due to other accounting guidelines | 0 | 1 |
| Total | $15 | $15 |

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

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

Fixed maturity security other-than-temporary impairments in the first six months of 2015 were concentrated in the industrial other, capital goods and utility sectors within corporate securities. Fixed maturity security other-than-temporary impairments in the first six months of 2014 were concentrated in the consumer cyclical and communications sectors within corporate securities. In both periods these other-than-temporary impairments reflect adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in the first six months of both 2015 and 2014 were primarily due to the extent and duration of declines in values.

General Account Investments

Portfolio Composition

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

The following tables set forth the composition of the investments of our general account apportioned between PFI excluding the Closed Block division and the Closed Block division as of the dates indicated.

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| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | PFI excluding Closed Block Division | | | Closed Block Division | Consolidated |
| | ($ in millions) | | | | |
| Fixed maturities: | | | | | |
| Public, available-for-sale, at fair value | $215,100 | 63.7 | % | $24,582 | $239,682 |
| Public, held-to-maturity, at amortized cost | 1,887 | 0.6 | | 0 | 1,887 |
| Private, available-for-sale, at fair value | 35,491 | 10.5 | | 14,742 | 50,233 |
| Private, held-to-maturity, at amortized cost | 509 | 0.1 | | 0 | 509 |
| Trading account assets supporting insurance liabilities, at fair value | 20,267 | 6.0 | | 0 | 20,267 |
| Other trading account assets, at fair value | 1,455 | 0.4 | | 310 | 1,765 |
| Equity securities, available-for-sale, at fair value | 6,663 | 2.0 | | 3,230 | 9,893 |
| Commercial mortgage and other loans, at book value | 38,297 | 11.3 | | 9,838 | 48,135 |
| Policy loans, at outstanding balance | 6,804 | 2.0 | | 4,848 | 11,652 |
| Other long-term investments(1) | 6,929 | 2.1 | | 2,837 | 9,766 |
| Short-term investments | 4,419 | 1.3 | | 1,098 | 5,517 |
| Total general account investments | 337,821 | 100.0 | % | 61,485 | 399,306 |
| Invested assets of other entities and operations(2) | 12,638 | | | 0 | 12,638 |
| Total investments | $350,459 | | | $61,485 | $411,944 |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | PFI excluding Closed Block Division | | | Closed Block Division | Consolidated |
| | ($ in millions) | | | | |
| Fixed maturities: | | | | | |
| Public, available-for-sale, at fair value | $220,539 | 64.4 | % | $28,626 | $249,165 |
| Public, held-to-maturity, at amortized cost | 2,000 | 0.6 | | 0 | 2,000 |
| Private, available-for-sale, at fair value | 34,738 | 10.1 | | 15,039 | 49,777 |
| Private, held-to-maturity, at amortized cost | 575 | 0.2 | | 0 | 575 |
| Trading account assets supporting insurance liabilities, at fair value | 20,263 | 5.9 | | 0 | 20,263 |
| Other trading account assets, at fair value | 1,456 | 0.5 | | 350 | 1,806 |
| Equity securities, available-for-sale, at fair value | 6,331 | 1.8 | | 3,522 | 9,853 |
| Commercial mortgage and other loans, at book value | 36,538 | 10.7 | | 9,475 | 46,013 |
| Policy loans, at outstanding balance | 6,798 | 2.0 | | 4,914 | 11,712 |
| Other long-term investments(1) | 7,169 | 2.1 | | 2,766 | 9,935 |
| Short-term investments | 5,874 | 1.7 | | 2,037 | 7,911 |
| Total general account investments | 342,281 | 100.0 | % | 66,729 | 409,010 |
| Invested assets of other entities and operations(2) | 10,976 | | | 0 | 10,976 |
| Total investments | $353,257 | | | $66,729 | $419,986 |

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

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

The decrease in general account investments attributable to PFI excluding the Closed Block division in the first six months of 2015 was primarily due to a net decrease in fair value driven by an increase in interest rates in the U.S. and Japan, partially offset by the reinvestment of net investment income, net business inflows, and the transfer of assets from the former Closed Block Business. The general account investments attributable to the Closed Block division also decreased in the first six months of 2015, primarily due to an increase in interest rates in the U.S. and the transfer of assets related to the former Closed Block Business. For

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information regarding the methodology used in determining the fair value of our fixed maturities, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

As of both June 30, 2015 and December 31, 2014, 41% of our general account investments, other than those of the Closed Block division, relate to our Japanese insurance operations.

Although the majority of the Japanese general account is invested in yen-denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. and Australian dollars, including those that support liabilities denominated in these currencies. As a result of continued growth in these portfolios, we have implemented a new reporting structure in Gibraltar Life that disaggregates the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure was effective for financial reporting beginning in the first quarter of 2015. For additional information, see "—Results of Operations by Segment—International Insurance Division," above.

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Fixed maturities: | | |
| Public, available-for-sale, at fair value | $106,894 | $111,991 |
| Public, held-to-maturity, at amortized cost | 1,887 | 2,000 |
| Private, available-for-sale, at fair value | 9,368 | 8,835 |
| Private, held-to-maturity, at amortized cost | 509 | 575 |
| Trading account assets supporting insurance liabilities, at fair value | 2,000 | 1,910 |
| Other trading account assets, at fair value | 650 | 672 |
| Equity securities, available-for-sale, at fair value | 2,697 | 2,504 |
| Commercial mortgage and other loans, at book value | 8,821 | 8,215 |
| Policy loans, at outstanding balance | 2,129 | 2,146 |
| Other long-term investments(1) | 1,731 | 1,606 |
| Short-term investments | 366 | 406 |
| Total Japanese general account investments | $137,052 | $140,860 |

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

The decrease in general account investments related to our Japanese insurance operations in the first six months of 2015 was primarily attributable to the translation impact of the yen and the Australian dollar weakening against the U.S. dollar, and a net decrease in fair value driven by an increase in interest rates.

As of June 30, 2015, our Japanese insurance operations had $49.7 billion, at fair value, of investments denominated in U.S. dollars, including $4.2 billion that were hedged to yen through third party derivative contracts and $32.0 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. As of December 31, 2014, our Japanese insurance operations had $48.9 billion, at fair value, of investments denominated in U.S. dollars, including $3.6 billion that were hedged to yen through third party derivative contracts and $31.9 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. The $0.8 billion increase in the fair value of U.S. dollar-denominated investments from December 31, 2014, is primarily attributable to

portfolio growth as a result of business inflows and the reinvestment of net investment income, partially offset by a net decrease in fair value driven by higher interest rates.

Our Japanese insurance operations had $10.0 billion and $10.4 billion, at fair value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of June 30, 2015 and December 31, 2014, respectively. The $0.4 billion decrease in the fair value of Australian dollar-denominated investments from December 31, 2014, is primarily attributable to the translation impact of the Australian dollar weakening against the U.S. dollar, partially offset by portfolio growth as a result of business inflows and the reinvestment of net investment income.

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For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see "—Results of Operations by Segment—International Insurance Division," above.

Investment Results

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

| | Three Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | PFI Excluding Closed Block Division | | Closed Block Division | | Consolidated | |
| | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | | | |
| Fixed maturities | 4.01 % | $2,234 | 5.02 % | $432 | 4.14 % | $2,666 |
| Trading account assets supporting insurance liabilities | 3.50 | 178 | 0.00 | 0 | 3.50 | 178 |
| Equity securities | 6.31 | 75 | 1.10 | 5 | 4.68 | 80 |
| Commercial mortgage and other loans | 4.51 | 426 | 5.26 | 127 | 4.67 | 553 |
| Policy loans | 4.92 | 83 | 5.91 | 71 | 5.33 | 154 |
| Short-term investments and cash equivalents | 0.20 | 8 | 2.29 | 3 | 0.24 | 11 |
| Other investments | 4.20 | 89 | 4.54 | 36 | 4.29 | 125 |
| Gross investment income before investment expenses | 3.91 | 3,093 | 4.93 | 674 | 4.06 | 3,767 |
| Investment expenses | (0.15) | (97) | (0.25) | (35) | (0.16) | (132) |
| Investment income after investment expenses | 3.76 % | 2,996 | 4.68 % | 639 | 3.90 % | 3,635 |
| Investment results of other entities and operations(2) | | 36 | | 0 | | 36 |
| Total investment income | | $3,032 | | $639 | | $3,671 |

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| | Three Months Ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | PFI Excluding Closed Block Division | | Closed Block Division | | Consolidated | |
| | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | | | |
| Fixed maturities | 3.82 % | $2,210 | 5.07 % | $484 | 4.00 % | $2,694 |
| Trading account assets supporting insurance liabilities | 3.59 | 188 | 0.00 | 0 | 3.59 | 188 |
| Equity securities | 6.64 | 80 | 4.22 | 25 | 5.83 | 105 |
| Commercial mortgage and other loans | 4.83 | 390 | 5.24 | 130 | 4.92 | 520 |
| Policy loans | 4.93 | 85 | 5.90 | 73 | 5.34 | 158 |
| Short-term investments and cash equivalents | 0.22 | 6 | 1.47 | 2 | 0.27 | 8 |
| Other investments | 5.99 | 129 | 9.08 | 60 | 6.72 | 189 |
| Gross investment income before investment expenses | 3.93 | 3,088 | 5.29 | 774 | 4.14 | 3,862 |
| Investment expenses | (0.13 ) | (101 ) | (0.26 ) | (39 ) | (0.15 ) | (140 ) |
| Investment income after investment expenses | 3.80 % | 2,987 | 5.03 % | 735 | 3.99 % | 3,722 |
| Investment results of other entities and operations(2) | | 32 | | 0 | | 32 |
| Total investment income | | $3,019 | | $735 | | $3,754 |

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

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

See below for a discussion of the change in the yields for PFI excluding the Closed Block division. The net investment income yield attributable to the Closed Block division for the three months ended June 30, 2015 decreased compared to the three months ended June 30, 2014 due to lower income on non-coupon investments and lower fixed income reinvestment rates.

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

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| | Six Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | PFI Excluding Closed Block Division | | Closed Block Division | | Consolidated | |
| | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | | | |
| Fixed maturities | 4.00 % | $4,434 | 4.90 % | $859 | 4.13 % | $5,293 |
| Trading account assets supporting insurance liabilities | 3.62 | 365 | 0.00 | 0 | 3.62 | 365 |
| Equity securities | 5.80 | 136 | 3.77 | 40 | 5.16 | 176 |
| Commercial mortgage and other loans | 4.56 | 845 | 5.24 | 249 | 4.70 | 1,094 |
| Policy loans | 4.93 | 166 | 5.92 | 142 | 5.34 | 308 |
| Short-term investments and cash equivalents | 0.22 | 17 | 1.43 | 6 | 0.26 | 23 |
| Other investments | 6.10 | 258 | 7.72 | 120 | 6.53 | 378 |
| Gross investment income before investment expenses | 3.97 | 6,221 | 5.11 | 1,416 | 4.14 | 7,637 |
| Investment expenses | (0.15 ) | (190 ) | (0.23 ) | (68 ) | (0.15 ) | (258 ) |
| Investment income after investment expenses | 3.82 % | 6,031 | 4.88 % | 1,348 | 3.99 % | 7,379 |
| Investment results of other entities and operations(2) | | 61 | | 0 | | 61 |
| Total investment income | | $6,092 | | $1,348 | | $7,440 |

| | Six Months Ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | PFI Excluding Closed Block Division | | Closed Block Division | | Consolidated | |
| | Yield(1) | Amount | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | | | |
| Fixed maturities | 3.83 % | $4,367 | 5.12 % | $966 | 4.01 % | $5,333 |
| Trading account assets supporting insurance liabilities | 3.72 | 387 | 0.00 | 0 | 3.72 | 387 |
| Equity securities | 6.12 | 143 | 3.82 | 46 | 5.34 | 189 |
| Commercial mortgage and other loans | 4.76 | 753 | 5.38 | 262 | 4.90 | 1,015 |
| Policy loans | 4.92 | 167 | 5.91 | 145 | 5.33 | 312 |
| Short-term investments and cash equivalents | 0.23 | 12 | 1.13 | 3 | 0.28 | 15 |
| Other investments | 8.97 | 379 | 13.15 | 164 | 9.93 | 543 |
| Gross investment income before investment expenses | 4.00 | 6,208 | 5.48 | 1,586 | 4.23 | 7,794 |
| Investment expenses | (0.13 ) | (173 ) | (0.26 ) | (76 ) | (0.15 ) | (249 ) |
| Investment income after investment expenses | 3.87 % | 6,035 | 5.22 % | 1,510 | 4.08 % | 7,545 |
| Investment results of other entities and operations(2) | | 47 | | 0 | | 47 |
| Total investment income | | $6,082 | | $1,510 | | $7,592 |

(1)

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

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

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See below for a discussion of the change in the yields for PFI excluding the Closed Block division. The net investment income yield attributable to the Closed Block division for the six months ended June 30, 2015, decreased compared to the six months ended June 30, 2014, due to lower income on non-coupon investments and lower fixed income reinvestment rates.

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

| | Three Months Ended June 30, 2015 | | Three Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | |
| Fixed maturities | 4.57 % | $1,423 | 4.62 % | $1,373 |
| Trading account assets supporting insurance liabilities | 3.77 | 173 | 3.85 | 183 |
| Equity securities | 6.60 | 55 | 6.73 | 51 |
| Commercial mortgage and other loans | 4.51 | 327 | 4.86 | 310 |
| Policy loans | 5.40 | 63 | 5.53 | 62 |
| Short-term investments and cash equivalents | 0.20 | 7 | 0.23 | 5 |
| Other investments | 3.78 | 56 | 6.15 | 98 |
| Gross investment income before investment expenses | 4.22 | 2,104 | 4.49 | 2,082 |
| Investment expenses | (0.16) | (56) | (0.16) | (63) |
| Investment income after investment expenses | 4.06 % | 2,048 | 4.33 % | 2,019 |
| Investment results of other entities and operations(2) | | 36 | | 32 |
| Total investment income | | $2,084 | | $2,051 |

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

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

The decrease in net investment income yield attributable to our general account investments, excluding the Closed Block division, other than the Japanese operations' portfolio, for the three months ended June 30, 2015, compared to the three months ended June 30, 2014, was primarily the result of lower income from non-coupon investments and lower fixed income reinvestment rates.

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

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| | Six Months Ended June 30, 2015 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | |
| Fixed maturities | 4.62 % | $2,834 | 4.65 % | $2,733 |
| Trading account assets supporting insurance liabilities | 3.81 | 348 | 3.90 | 368 |
| Equity securities | 6.31 | 102 | 6.61 | 98 |
| Commercial mortgage and other loans | 4.58 | 654 | 4.85 | 606 |
| Policy loans | 5.42 | 125 | 5.51 | 123 |
| Short-term investments and cash equivalents | 0.21 | 15 | 0.23 | 10 |
| Other investments | 5.62 | 170 | 9.73 | 300 |
| Gross investment income before investment expenses | 4.31 | 4,248 | 4.61 | 4,238 |
| Investment expenses | (0.16 ) | (109 ) | (0.15 ) | (99 ) |
| Investment income after investment expenses | 4.15 % | 4,139 | 4.46 % | 4,139 |
| Investment results of other entities and operations(2) | | 61 | | 47 |
| Total investment income | | $4,200 | | $4,186 |

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

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

The decrease in net investment income yield attributable to our general account investments, excluding the Closed Block division, other than the Japanese operations' portfolio, for the six months ended June 30, 2015, compared to the six months ended June 30, 2014, was primarily the result of lower income from non-coupon investments and lower fixed income reinvestment rates.

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

| | Three Months Ended June 30, 2015 | | Three Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | |
| Fixed maturities | 3.29 % | $811 | 2.98 % | $837 |
| Trading account assets supporting insurance liabilities | 1.06 | 5 | 1.08 | 5 |
| Equity securities | 5.64 | 20 | 6.49 | 29 |
| Commercial mortgage and other loans | 4.54 | 99 | 4.72 | 80 |
| Policy loans | 3.87 | 20 | 3.81 | 23 |
| Short-term investments and cash equivalents | 0.26 | 1 | 0.21 | 1 |
| Other investments | 5.19 | 33 | 5.53 | 31 |

| | | | | |
|---|---|---|---|---|
| Gross investment income before investment expenses | 3.40 | 989 | 3.12 | 1,006 |
| Investment expenses | (0.14 ) | (41 ) | (0.13 ) | (38 ) |
| Total investment income | 3.26 % | $948 | 2.99 % | $968 |

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

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The increase in net investment income yield on the Japanese insurance portfolio for the three months ended June 30, 2015, compared to the three months ended June 30, 2014, was primarily attributable to a higher allocation of U.S. dollar-denominated investments and higher income from non-coupon investments.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts was approximately $35.5 billion and $33.3 billion, for the three months ended June 30, 2015 and 2014, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts was approximately $9.0 billion and $8.5 billion, for the three months ended June 30, 2015 and 2014, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars.

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

| | Six Months Ended June 30, 2015 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Yield(1) | Amount | Yield(1) | Amount |
| | ($ in millions) | | | |
| Fixed maturities | 3.23 % | $1,600 | 2.95 % | $1,634 |
| Trading account assets supporting insurance liabilities | 1.78 | 17 | 1.96 | 19 |
| Equity securities | 4.67 | 34 | 5.31 | 45 |
| Commercial mortgage and other loans | 4.51 | 191 | 4.39 | 147 |
| Policy loans | 3.87 | 41 | 3.78 | 44 |
| Short-term investments and cash equivalents | 0.26 | 2 | 0.26 | 2 |
| Other investments | 7.28 | 88 | 6.91 | 79 |
| Gross investment income before investment expenses | 3.39 | 1,973 | 3.11 | 1,970 |
| Investment expenses | (0.14 ) | (81 ) | (0.13 ) | (74 ) |
| Total investment income | 3.25 % | $1,892 | 2.98 % | $1,896 |

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

The increase in net investment income yield on the Japanese insurance portfolio for the six months ended June 30, 2015, compared to the six months ended June 30, 2014, was primarily attributable to a higher allocation of U.S. dollar-denominated investments and higher income from non-coupon investments.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts was approximately $35.5 billion and $33.3 billion, for the six

months ended June 30, 2015, and 2014, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts was approximately $9.4 billion and $8.3 billion for the six months ended June 30, 2015, and 2014, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars.

For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations see, "—Results of Operations by Segment—International Insurance Division."

General Account Investments of PFI excluding Closed Block Division

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In the following sections, we provide details about our investment portfolio, excluding investments held in the Closed Block division. We believe the details of the composition of our investment portfolio excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 6 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

Fixed Maturity Securities

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

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

| | June 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| Industry(1) | Amortized Cost | Gross Unrealized Gains(2) | Gross Unrealized Losses(2) | Fair Value | Amortized Cost | Gross Unrealized Gains(2) | Gross Unrealized Losses(2) | Fair Value |
| | (in millions) | | | | | | | |
| Corporate securities: | | | | | | | | |
| Finance | $20,876 | $1,594 | $215 | $22,255 | $20,569 | $1,984 | $55 | $22,498 |
| Consumer non-cyclical | 20,879 | 2,370 | 358 | 22,891 | 20,956 | 2,822 | 141 | 23,637 |
| Utility | 16,554 | 1,652 | 309 | 17,897 | 16,144 | 2,149 | 82 | 18,211 |
| Capital goods | 10,493 | 1,162 | 185 | 11,470 | 10,170 | 1,348 | 67 | 11,451 |
| Consumer cyclical | 9,351 | 1,005 | 117 | 10,239 | 9,447 | 1,129 | 37 | 10,539 |
| Foreign agencies | 5,346 | 1,226 | 49 | 6,523 | 5,186 | 1,227 | 38 | 6,375 |
| Energy | 11,382 | 1,028 | 361 | 12,049 | 11,395 | 1,135 | 275 | 12,255 |
| Communications | 6,590 | 842 | 162 | 7,270 | 6,465 | 1,021 | 41 | 7,445 |
| Basic industry | 5,945 | 561 | 155 | 6,351 | 6,003 | 640 | 71 | 6,572 |
| Transportation | 5,938 | 668 | 74 | 6,532 | 5,718 | 769 | 18 | 6,469 |
| Technology | 3,551 | 352 | 63 | 3,840 | 3,474 | 389 | 30 | 3,833 |
| Industrial other | 3,281 | 252 | 52 | 3,481 | 2,746 | 333 | 21 | 3,058 |
| Total corporate securities | 120,186 | 12,712 | 2,100 | 130,798 | 118,273 | 14,946 | 876 | 132,343 |
| Foreign government(3) | 69,094 | 10,453 | 152 | 79,395 | 70,327 | 11,286 | 111 | 81,502 |
| Residential mortgage-backed | 5,225 | 407 | 6 | 5,626 | 5,747 | 466 | 4 | 6,209 |
| Asset-backed securities(4) | 7,323 | 331 | 56 | 7,598 | 7,094 | 292 | 78 | 7,308 |
| Commercial mortgage-backed | 8,652 | 233 | 25 | 8,860 | 9,688 | 344 | 24 | 10,008 |
| U.S. Government | 10,604 | 3,034 | 8 | 13,630 | 11,493 | 3,468 | 5 | 14,956 |
| State & Municipal(5) | 6,918 | 542 | 102 | 7,358 | 5,163 | 693 | 3 | 5,853 |
| Total(6) | $228,002 | $27,712 | $2,449 | $253,265 | $227,785 | $31,495 | $1,101 | $258,179 |

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(1)

Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

(2) Includes $280 million of gross unrealized gains and $2 million of gross unrealized losses as of June 30, 2015, compared to $328 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2014, on securities classified as held-to-maturity.

(3) As of June 30, 2015 and December 31, 2014, based on amortized cost, 75% and 76% represent Japanese government bonds held by our Japanese insurance operations, respectively, with no other individual country representing more than 10% of the balance.

(4) Includes securities collateralized by sub-prime mortgages. See "—Asset-Backed Securities" below.

(5) Includes securities related to the Build America Bonds program.

(6) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excluded from the table above are fixed maturity securities classified as trading. See "—Trading Account Assets Supporting Insurance Liabilities" and "—Other Trading Account Assets" for additional information.

The decrease in net unrealized gains from December 31, 2014 to June 30, 2015, was primarily due to a net increase in interest rates in both the U.S. and Japan.

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As of June 30, 2015, PFI excluding the Closed Block division had direct and indirect energy exposure of approximately $15 billion on a market value basis with a carrying value of approximately $14 billion, primarily through public and private corporate bonds, substantially all of which are investment grade. We could be exposed to future valuation declines or impairments if oil prices remain at current or lower levels for an extended period of time.

Asset-Backed Securities

The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to PFI excluding the Closed Block division, by credit quality, as of the dates indicated.

Asset-Backed Securities at Amortized Cost

| | June 30, 2015 Lowest Rating Agency Rating | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB and below | Total Amortized Cost | Total December 31, 2014 |
| | (in millions) | | | | | | |
| Collateralized by sub-prime mortgages | $0 | $1 | $91 | $86 | $1,341 | $ 1,519 | $1,627 |
| Collateralized loan obligations | 4,130 | 34 | 0 | 0 | 0 | 4,164 | 3,821 |
| Collateralized by education loans(1) | 29 | 416 | 0 | 0 | 0 | 445 | 382 |
| Collateralized by credit cards | 262 | 0 | 7 | 0 | 0 | 269 | 268 |
| Collateralized by auto loans | 518 | 0 | 0 | 0 | 0 | 518 | 492 |
| Other asset-backed securities(2) | 85 | 111 | 79 | 23 | 110 | 408 | 504 |
| Total asset-backed securities(3) | $5,024 | $562 | $177 | $109 | $1,451 | $ 7,323 | $7,094 |

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(1) Approximately 99% of the $445 million of education loans included above carry a Department of Education guaranty as of June 30, 2015.

(2) Includes asset-backed securities collateralized by aircraft, equipment leases, franchises, and timeshares.

(3) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.

Asset-Backed Securities at Fair Value

| | June 30, 2015 Lowest Rating Agency Rating | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB and below | Total Fair Value | Total December 31, 2014 |
| | (in millions) | | | | | | |
| Collateralized by sub-prime mortgages | $0 | $1 | $89 | $85 | $1,490 | $1,665 | $ 1,742 |
| Collateralized loan obligations | 4,193 | 35 | 0 | 0 | 4 | 4,232 | 3,867 |
| Collateralized by education loans(1) | 29 | 438 | 0 | 0 | 0 | 467 | 398 |
| Collateralized by credit cards | 269 | 0 | 7 | 0 | 0 | 276 | 277 |
| Collateralized by auto loans | 519 | 0 | 0 | 0 | 0 | 519 | 493 |
| Other asset-backed securities(2) | 100 | 112 | 87 | 25 | 115 | 439 | 531 |
| Total asset-backed securities(3) | $5,110 | $586 | $183 | $110 | $1,609 | $7,598 | $ 7,308 |

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(1)

Approximately 99% of the $467 million of education loans included above carry a Department of Education guaranty as of June 30, 2015.

(2) Includes asset-backed securities collateralized by aircraft, equipment leases, franchises, and timeshares.

(3) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.

The tables above provide ratings as assigned by nationally recognized rating agencies as of June 30, 2015, including Standard & Poor's, Moody's and Fitch. In making our investment decisions, rather than relying solely on the rating agencies' evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit's independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.

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While there is no market standard definition for securities collateralized by sub-prime mortgages, we define sub-prime mortgages as residential mortgages that are originated to weaker-quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios or limited documentation.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to PFI excluding the Closed Block division decreased from $1.627 billion as of December 31, 2014, to $1.519 billion as of June 30, 2015, primarily reflecting sales and principal paydowns. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages were $45 million as of June 30, 2015, and $55 million as of December 31, 2014. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

Residential Mortgage-Backed Securities

The following tables set forth the amortized cost of our residential mortgage-backed securities attributable to PFI excluding the Closed Block division as of the dates indicated.

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | % of Total | | Amortized Cost | % of Total | |
| | ($ in millions) | | | | | |
| By security type: | | | | | | |
| Agency pass-through securities(1) | $4,686 | 89.7 | % | $5,118 | 89.1 | % |
| Collateralized mortgage obligations | 539 | 10.3 | | 629 | 10.9 | |
| Total residential mortgage-backed securities | $5,225 | 100.0 | % | $5,747 | 100.0 | % |
| Portion rated AA or higher(2) | $5,148 | 98.5 | % | $5,672 | 98.7 | % |

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(1) As of June 30, 2015, of these securities, $3.512 billion are supported by U.S. government and $1.174 billion are supported by foreign governments. As of December 31, 2014, of these securities, $3.855 billion were supported by the U.S. government and $1.263 billion were supported by foreign governments.
(2) Based on lowest external rating agency rating.

Commercial Mortgage-Backed Securities

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

Commercial Mortgage-Backed Securities at Amortized Cost

| | June 30, 2015 | | | | | | Total |
|---|---|---|---|---|---|---|---|
| | Lowest Rating Agency Rating(1) | | | | | Total | December |
| | AAA | AA | A | BBB | BB and below | Amortized Cost | 31, 2014 |
| Vintage | (in millions) | | | | | | |
| 2015 | $58 | $21 | $0 | $0 | $0 | $79 | $0 |
| 2014 | 2,393 | 1 | 0 | 0 | 0 | 2,394 | 2,383 |
| 2013 | 2,435 | 99 | 0 | 9 | 0 | 2,543 | 2,481 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2012—2009 | 217 | 309 | 0 | 0 | 0 | 526 | 529 |
| 2008—2007 | 140 | 43 | 16 | 5 | 0 | 204 | 301 |
| 2006 | 2,270 | 88 | 7 | 3 | 0 | 2,368 | 2,576 |
| 2005 & Prior | 532 | 1 | 4 | 0 | 1 | 538 | 1,418 |
| Total commercial mortgage-backed securities(2)(3)(4) | $8,045 | $562 | $27 | $17 | $1 | $8,652 | $9,688 |

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(1) The table above provides ratings as assigned by nationally recognized rating agencies as of June 30, 2015, including Standard & Poor's, Moody's, Fitch and Realpoint.

(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.

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(3) Included in the table above, as of June 30, 2015, are downgraded super senior securities with amortized cost of $96 million in AA and $23 million in A.

(4) Included in the table above, as of June 30, 2015, are agency commercial mortgage-backed securities with amortized cost of $465 million, all rated AA.

Commercial Mortgage-Backed Securities at Fair Value

| | June 30, 2015 Lowest Rating Agency Rating(1) | | | | | | Total December 31, 2014 |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB and below | Total Fair Value | |
| Vintage | (in millions) | | | | | | |
| 2015 | $56 | $21 | $0 | $0 | $0 | $77 | $0 |
| 2014 | 2,460 | 1 | 0 | 0 | 0 | 2,461 | 2,474 |
| 2013 | 2,507 | 102 | 0 | 9 | 0 | 2,618 | 2,571 |
| 2012—2009 | 215 | 329 | 0 | 0 | 0 | 544 | 547 |
| 2008—2007 | 142 | 46 | 16 | 4 | 0 | 208 | 305 |
| 2006 | 2,297 | 91 | 6 | 4 | 0 | 2,398 | 2,642 |
| 2005 & Prior | 548 | 2 | 4 | 0 | 0 | 554 | 1,469 |
| Total commercial mortgage-backed securities(2)(3) | $8,225 | $592 | $26 | $17 | $0 | $8,860 | $10,008 |

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(1) The table above provides ratings as assigned by nationally recognized rating agencies as of June 30, 2015, including Standard & Poor’s, Moody’s, Fitch and Realpoint.

(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.

(3) Included in the table above, as of June 30, 2015, are agency commercial mortgage-backed securities with fair value of $492 million, all rated AA.

Fixed Maturity Securities Credit Quality

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

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

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

The following table sets forth our fixed maturity portfolio by NAIC Designation or equivalent ratings attributable to PFI excluding the Closed Block division as of the dates indicated.

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| NAIC Designation(1)(2) | June 30, 2015 Amortized Cost | Gross Unrealized Gains(3) | Gross Unrealized Losses(3)(4) | Fair Value | December 31, 2014 Amortized Cost | Gross Unrealized Gains(3) | Gross Unrealized Losses(3)(4) | Fair Value |
|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | |
| 1 | $173,839 | $22,384 | $ 1,398 | $194,825 | $176,122 | $25,715 | $ 564 | $201,273 |
| 2 | 43,947 | 4,452 | 880 | 47,519 | 42,111 | 4,934 | 402 | 46,643 |
| Subtotal High or Highest Quality Securities(5) | 217,786 | 26,836 | 2,278 | 242,344 | 218,233 | 30,649 | 966 | 247,916 |
| 3 | 7,189 | 546 | 109 | 7,626 | 6,619 | 537 | 58 | 7,098 |
| 4 | 2,193 | 208 | 42 | 2,359 | 2,228 | 204 | 50 | 2,382 |
| 5 | 529 | 96 | 17 | 608 | 441 | 83 | 24 | 500 |
| 6 | 305 | 26 | 3 | 328 | 264 | 22 | 3 | 283 |
| Subtotal Other Securities(6)(7) | 10,216 | 876 | 171 | 10,921 | 9,552 | 846 | 135 | 10,263 |
| Total Fixed Maturities | $228,002 | $27,712 | $ 2,449 | $253,265 | $227,785 | $31,495 | $ 1,101 | $258,179 |

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(1) Reflects equivalent ratings for investments of the international insurance operations.

(2) Includes, as of June 30, 2015 and December 31, 2014, 791 securities with amortized cost of $3,473 million (fair value, $3,538 million) and 1,330 securities with amortized cost of $6,864 million (fair value, $7,342 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

(3) Includes $280 million of gross unrealized gains and $2 million of gross unrealized losses as of June 30, 2015, compared to $328 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2014, on securities classified as held-to-maturity.

(4) As of June 30, 2015, includes gross unrealized losses of $98 million on public fixed maturities and $73 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2014, includes gross unrealized losses of $71 million on public fixed maturities and $64 million on private fixed maturities considered to be other than high or highest quality.

(5) On amortized cost basis, as of June 30, 2015, includes $188,212 million of public fixed maturities and $29,574 million of private fixed maturities and, as of December 31, 2014, includes $189,713 million of public fixed maturities and $28,520 million of private fixed maturities.

(6) On an amortized cost basis, as of June 30, 2015, includes $6,231 million of public fixed maturities and $3,985 million of private fixed maturities and, as of December 31, 2014, includes $5,712 million of public fixed maturities and $3,840 million of private fixed maturities.

(7) On an amortized cost basis, as of June 30, 2015, securities considered below investment grade based on lowest of external rating agency ratings, total $11,890 million, or 5% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

Credit Derivative Exposure to Public Fixed Maturities

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

In a credit derivative, we may sell credit protection on an identified name or a broad based index, and in return receive a quarterly premium. The majority of the underlying reference names in single name and index credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit

quality and our credit derivatives have a remaining term to maturity of ten years or less. The premium or credit spread generally corresponds to the difference between the yield on the reference name's (or index's underlying reference names) public fixed maturity cash instruments and swap rates at the time the agreement is executed. Credit derivative contracts are recorded at fair value with changes in fair value, including the premium received, recorded in "Realized investment gains (losses), net."

As of June 30, 2015 and December 31, 2014, PFI excluding Closed Block division had $349 million and $1.5 billion notional amounts of exposure, respectively, where we have sold credit protection through credit derivatives, reported at fair value as an asset of less than $1 million and a liability of $2 million, respectively. Adjusted operating income from credit derivatives we sold was $2 million and $3 million for the three and six months ended June 30, 2015, respectively, which represents net premiums received attributable to each period. There were no premiums received for the credit derivatives we sell for the three and six months ended June 30, 2014. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding this derivative.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio. As of June 30, 2015 and December 31, 2014, PFI excluding the Closed Block division had $459 million and $405 million of notional amounts, respectively, reported at fair value as a liability of $9 million and $11 million, respectively. Adjusted operating income from credit derivatives we purchased was a loss of $2 million and $5 million for

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the three and six months ended June 30, 2015 and was a loss of $6 million and $13 million for the three and six months ended June 30, 2014, respectively, which represents net premiums paid attributable to each period. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

Other-Than-Temporary Impairments of Fixed Maturity Securities

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

For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish “checks and balances” for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our private fixed maturity asset managers formally review all private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns. For additional information regarding our policies regarding other-than-temporary impairments for fixed maturity securities, see Note 2 to the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

Other-than-temporary impairments of general account fixed maturity securities attributable to PFI excluding the Closed Block division that were recognized in earnings were $18 million and $17 million for the three months ended June 30, 2015 and 2014, respectively, and $22 million and $27 million for the six months ended June 30, 2015 and 2014, respectively.

Trading Account Assets Supporting Insurance Liabilities

The following table sets forth the composition of the TAASIL portfolio attributable to PFI excluding the Closed Block division as of the dates indicated.

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

As a percentage of amortized cost, 76% and 75% of the portfolio was publicly traded as of June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015 and December 31, 2014, 90% and 92%, respectively, of the fixed maturity portfolio was considered high or highest quality based on NAIC or equivalent rating. As of June 30, 2015, $1.448 billion of the residential mortgage-backed securities were publicly traded agency pass-through securities, which are supported by implicit or explicit government guarantees, of which more than 99% have credit ratings of A or higher. Collateralized mortgage obligations, including approximately $31 million secured by "ALT-A" mortgages, represented the remaining $40 million of residential mortgage-backed securities, of which 46% have credit ratings of A or better and 54% are BBB and below. For a discussion of this portfolio and

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changes in the fair value, see "—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments," above.

Other Trading Account Assets

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

The following table sets forth the composition of our other trading account assets attributable to PFI excluding the Closed Block division as of the dates indicated.

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (in millions) | | | |
| Short-term investments and cash equivalents | $1 | $1 | $1 | $1 |
| Fixed maturities | 841 | 845 | 849 | 878 |
| Equity securities(1) | 535 | 609 | 502 | 577 |
| Total other trading account assets | $1,377 | $1,455 | $1,352 | $1,456 |

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

Included in the $841 million of fixed maturities as of June 30, 2015, on an amortized cost basis, are $30 million of asset-backed securities, 61% of which have credit ratings of A or above, 19% have BBB credit ratings, and the remaining 20% have BB and below credit ratings.

Commercial Mortgage and Other Loans

Investment Mix

As of both June 30, 2015 and December 31, 2014, we held approximately 11% of our general account investments attributable to PFI excluding the Closed Block division in commercial mortgage and other loans. This percentage is net of a $91 million and $99 million allowance for losses as of June 30, 2015 and December 31, 2014, respectively.

The following table sets forth the composition of our commercial mortgage and other loans portfolio, before the allowance for losses, attributable to PFI excluding the Closed Block division as of the dates indicated.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Commercial and agricultural mortgage loans | $36,755 | $34,882 |
| Uncollateralized loans | 992 | 1,045 |
| Residential property loans | 327 | 392 |
| Other collateralized loans | 314 | 318 |
| Total commercial mortgage and other loans(1) | $38,388 | $36,637 |

(1) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the

general account, see "—Invested Assets of Other Entities and Operations" below.

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

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

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

Other collateralized loans include collateralized structured loans and consumer loans.

Composition of Commercial and Agricultural Mortgage Loans

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

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | % of Total | | Gross Carrying Value | % of Total | |
| | ($ in millions) | | | | | |
| Commercial and agricultural mortgage loans by region: | | | | | | |
| U.S. Regions: | | | | | | |
| Pacific | $11,786 | 32.1 | % | $10,951 | 31.4 | % |
| South Atlantic | 7,426 | 20.2 | | 6,939 | 19.9 | |
| Middle Atlantic | 4,651 | 12.7 | | 4,595 | 13.2 | |
| East North Central | 2,654 | 7.2 | | 2,662 | 7.6 | |
| West South Central | 3,655 | 9.9 | | 3,671 | 10.5 | |
| Mountain | 1,695 | 4.6 | | 1,646 | 4.7 | |
| New England | 1,722 | 4.7 | | 1,736 | 5.0 | |
| West North Central | 698 | 1.9 | | 580 | 1.7 | |
| East South Central | 534 | 1.5 | | 258 | 0.7 | |
| Subtotal-U.S. | 34,821 | 94.8 | | 33,038 | 94.7 | |
| Asia | 405 | 1.1 | | 693 | 2.0 | |
| Other | 1,529 | 4.1 | | 1,151 | 3.3 | |
| Total commercial and agricultural mortgage loans | $36,755 | 100.0 | % | $34,882 | 100.0 | % |

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | % of Total | | Gross Carrying Value | % of Total | |
| | ($ in millions) | | | | | |
| Commercial and agricultural mortgage loans by property type: | | | | | | |
| Industrial | $6,232 | 17.0 | % | $6,266 | 18.0 | % |
| Retail | 6,633 | 18.0 | | 6,515 | 18.7 | |
| Office | 8,126 | 22.1 | | 7,111 | 20.4 | |
| Apartments/Multi-Family | 9,099 | 24.8 | | 8,536 | 24.4 | |
| Other | 2,884 | 7.8 | | 2,972 | 8.5 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Agricultural properties | 1,950 | 5.3 | | 1,787 | 5.1 | |
| Hospitality | 1,831 | 5.0 | | 1,695 | 4.9 | |
| Total commercial and agricultural mortgage loans | $36,755 | 100.0 | % | $34,882 | 100.0 | % |

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

As of June 30, 2015, our general account investments in commercial and agricultural mortgage loans attributable to PFI excluding the Closed Block division had a weighted average debt service coverage ratio of 2.34 times, and a weighted average loan-to-value ratio of 55%. As of June 30, 2015, approximately 96% of commercial and agricultural mortgage loans were fixed rate loans. For those general account commercial and agricultural mortgage loans that were originated in 2015, the weighted average debt service coverage ratio was 2.46 times and the weighted average loan-to-value ratio was 63%.

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

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial and agricultural mortgage loan portfolio included approximately $1.5 billion and $1.3 billion of such loans as of June 30, 2015 and December 31, 2014, respectively. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of June 30, 2015, there are no loan-specific reserves related to these loans. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see "—Invested Assets of Other Entities and Operations" below.

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

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

| | June 30, 2015 Debt Service Coverage Ratio | | | |
|---|---|---|---|---|
| | Greater than 1.2x | 1.0x to < 1.2x | Less than 1.0x | Total Commercial and Agricultural Mortgage Loans |
| Loan-to-Value Ratio | (in millions) | | | |
| 0%-59.99% | $19,138 | $437 | $246 | $ 19,821 |
| 60%-69.99% | 11,193 | 389 | 46 | 11,628 |
| 70%-79.99% | 4,496 | 390 | 60 | 4,946 |
| Greater than 80% | 96 | 108 | 156 | 360 |

| Total commercial and agricultural mortgage loans | $34,923 | $1,324 | $508 | $ 36,755 |
|---|---|---|---|---|

The following table sets forth the breakdown of our commercial and agricultural mortgage loans attributable to PFI excluding the Closed Block division by year of origination as of June 30, 2015.

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| Year of Origination | June 30, 2015 Gross Carrying Value ($ in millions) | % of Total | |
|---|---|---|---|
| 2015 | $3,707 | 10.1 | % |
| 2014 | 7,532 | 20.5 | |
| 2013 | 8,239 | 22.4 | |
| 2012 | 4,427 | 12.0 | |
| 2011 | 4,560 | 12.4 | |
| 2010 | 2,718 | 7.4 | |
| 2009 | 683 | 1.9 | |
| 2008 & prior | 4,889 | 13.3 | |
| Total commercial and agricultural mortgage loans | $36,755 | 100.0 | % |

Commercial Mortgage and Other Loan Quality

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

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

Our general account investments in commercial mortgage and other loans attributable to PFI excluding the Closed Block division, based upon the recorded investment gross of allowance for credit losses, was $38,388 million and $36,637 million as of June 30, 2015 and December 31, 2014, respectively. As a percentage of recorded investment gross of allowance, more than 99.8% of these assets were current for both periods.
The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated.

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| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Allowance, beginning of year | $99 | $164 |
| Addition to (release of) allowance for losses | (8) | (55) |
| Charge-offs, net of recoveries | 0 | (8) |
| Change in foreign exchange | 0 | (2) |
| Allowance, end of period | $91 | $99 |
| Loan specific reserve | $2 | $5 |
| Portfolio reserve | $89 | $94 |

Equity Securities

Investment Mix

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

| | June 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in millions) | | | | | | | |
| Non-redeemable preferred stocks | $22 | $3 | $2 | $23 | $23 | $3 | $1 | $25 |
| Mutual fund common stocks(1) | 2,788 | 460 | 35 | 3,213 | 2,638 | 468 | 30 | 3,076 |
| Other common stocks | 1,994 | 1,449 | 16 | 3,427 | 2,064 | 1,190 | 24 | 3,230 |
| Total equity securities(2) | $4,804 | $1,912 | $53 | $6,663 | $4,725 | $1,661 | $55 | $6,331 |

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(1) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.

(2) Amounts presented exclude hedge funds and other alternative investments which are reported in "Other long-term investments."

Other-Than-Temporary Impairments of Equity Securities

For those equity securities classified as available-for-sale, we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. For additional information regarding our policies regarding other-than-temporary impairments for equity securities, see Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.
Impairments of equity securities attributable to PFI excluding the Closed Block division were $9 million and $6 million for the three months ended June 30, 2015 and 2014, respectively, and $14 million for both the six months ended June 30, 2015 and 2014. For a further discussion of impairments, see "—Realized Investment Gains and Losses" above.
Other Long-Term Investments

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

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| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Joint ventures and limited partnerships: | | |
| Non-real estate-related(1) | $4,117 | $4,267 |
| Real estate-related | 268 | 235 |
| Real estate held through direct ownership | 1,669 | 1,795 |
| Other(2) | 875 | 872 |
| Total other long-term investments | $6,929 | $7,169 |

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

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

Other-Than Temporary Impairments of Other Long-Term Investments

Other long-term investments consist of the Company's non-coupon investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned real estate and other investments. For joint ventures and limited partnerships, the carrying value of these investments is written down, or impaired to fair value when a decline in value is considered to be other-than-temporary.

Impairments on joint ventures and limited partnerships attributable to PFI excluding the Closed Block division were $7 million and $26 million for the three and six months ended June 30, 2015, respectively. There were no impairments for the three and six months ended June 30, 2014. For a further discussion of impairments, see "—Realized Investment Gains and Losses" above.

For additional information regarding our policies regarding other-than-temporary impairments for joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments, see Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

Invested Assets of Other Entities and Operations

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Fixed Maturities: | | |
| Public, available-for-sale, at fair value | $93 | $96 |
| Private, available-for-sale, at fair value | 55 | 52 |
| Other trading account assets, at fair value | 10,984 | 9,068 |
| Equity securities, available-for-sale, at fair value | 8 | 8 |
| Commercial mortgage and other loans, at book value(1) | 434 | 419 |
| Other long-term investments | 912 | 986 |
| Short-term investments | 152 | 347 |
| Total investments | $12,638 | $10,976 |

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

Other Trading Account Assets

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

Commercial Mortgage and Other Loans

Our asset management operations include our commercial mortgage operations, which provide mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac.

The mortgage loans of our commercial mortgage operations are included in "Commercial mortgage and other loans," with related derivatives and other hedging instruments primarily included in "Other trading account assets" and "Other long-term investments."

Other Long-Term Investments

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

Liquidity and Capital Resources

This section supplements, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Overview

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

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

margins for our insurance subsidiaries under various stress scenarios.

Prudential Financial is a non-bank financial company under the Dodd-Frank Act ("Dodd-Frank"). As a non-bank financial company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to prudential regulatory standards, which include or will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to risk-based capital, leverage, liquidity, stress-testing, overall risk management, resolution plans and early remediation; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects. In addition, the FSB has identified the Company as a G-SII. For information on the potential impact of this regulation on us, see "Business—Regulation" and "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2014.

During the six months ended June 30, 2015, we took the following significant actions that impacted our liquidity and capital position:

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- On January 2, 2015, we repurchased and canceled all of the outstanding shares of our Class B Stock for a cash purchase price of $651 million. In accordance with the terms of the Class B Stock repurchase agreement, the holders of a majority of the Class B Stock have exercised their right to dispute the calculation of the purchase price. Accordingly, the final purchase price of the Class B Stock could change;
- We repurchased $500 million of shares of our Common Stock and declared aggregate Common Stock dividends of $532 million;
- We issued $1.0 billion of junior subordinated notes to be utilized for general corporate purposes; and
- We obtained additional financing for Regulation XXX and Guideline AXXX reserves by increasing the amount outstanding under our captive financing facilities by $308 million and $262 million, respectively.

Capital

The primary components of the Company's capitalization consist of equity and outstanding capital debt, including junior subordinated debt. As shown in the table below, as of June 30, 2015, the Company had $39.8 billion in capital, all of which was available to support the aggregate capital requirements of its divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Equity(1) | $28,319 | $25,720 |
| Junior subordinated debt (i.e. hybrid securities) | 5,884 | 4,884 |
| Other capital debt | 5,603 | 8,451 |
| Total capital | $39,806 | $39,055 |

(1) Amounts attributable to Prudential Financial excluding AOCI.

The decrease in other capital debt from December 31, 2014, primarily reflects a reduction in capital required as a result of positive net cash flows, including proceeds from the Closed Block restructuring received as part of the Prudential Insurance dividend, and a reduction in capital debt due to proceeds received from an issuance of junior subordinated debt.

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

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2014, the most recent statutory fiscal year-end and RBC reporting date for these subsidiaries.

| | Ratio(1) | |
|---|---|---|
| Prudential Insurance(2) | 498 | % |
| Prudential Annuities Life Assurance Corporation ("PALAC") | 647 | % |

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

public.

(2) Includes Prudential Retirement Insurance and Annuity Company ("PRIAC"), Pruco Life Insurance Company ("Pruco Life") and Pruco Life Insurance Company of New Jersey ("PLNJ"), a subsidiary of Pruco Life.

The table below presents the Solvency Margin ratios of our most significant international insurance subsidiaries as of March 31, 2015, their most recent statutory fiscal year end.

| | Ratio |
|---|---|
| Prudential of Japan | 844 % |
| Gibraltar Life consolidated(1) | 882 % |

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

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

The regulatory capital levels of our domestic and international insurance subsidiaries can be materially impacted by interest rate, equity market and real estate market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of our investment portfolio, foreign exchange rate movements and business growth, among other items. In addition, particularly for our domestic insurance subsidiaries, the recapture of business subject to third-party reinsurance arrangements due to, for example, defaults by, or credit quality migration affecting, the third-party reinsurers could negatively impact regulatory capital. Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. We evaluate the regulatory capital of our domestic and international insurance operations under reasonably foreseeable stress scenarios and believe we have adequate resources to maintain our capital levels comfortably above regulatory requirements under these scenarios.

Capital Protection Framework

We employ a “Capital Protection Framework” (“the Framework”) to ensure that sufficient capital resources are available to maintain adequate capitalization on a consolidated basis and competitive RBC ratios and solvency margins for our insurance subsidiaries under various stress scenarios. The Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, interest rates, credit losses, and foreign currency exchange rates. In evaluating these potential impacts, we assess risk holistically at the enterprise level, recognizing that our business mix may produce results that partially offset on a net basis. The Framework addresses the potential capital consequences, under stress scenarios, of certain of these net risks and the strategies we use to mitigate them, including the following:

- Equity market exposure affecting the statutory capital of the Company as a whole, which we manage through our equity hedge program and on-balance sheet and contingent sources of capital;
- Our decision to manage a portion of our interest rate risk internally, on a net basis, at an enterprise level. In implementing this strategy, we execute intercompany derivative transactions between our Corporate and Other operations and certain business segments. We limit our exposure to the resulting net interest rate risk at the enterprise level through options embedded in our hedging strategy that may be exercised if interest rates decline below certain thresholds. The results of this strategy are described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Corporate and Other”; and
- Activities of our business segments, including those for which specific risk mitigation strategies have been implemented, such as our living benefits hedging program that covers certain risks associated with our variable annuity products.

We periodically recalibrate our hedging strategies in response to changing market conditions. The Framework accommodates periodic volatility within ranges that we deem acceptable, while also providing for additional potential sources of capital, including on-balance sheet capital, derivatives, and contingent sources of capital. Although we continue to enhance our approach, we believe we currently have access to sufficient resources to maintain adequate capitalization and competitive RBC ratios and solvency margins under a range of potential stress scenarios.

Captive Reinsurance Companies

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Captive Reinsurance Companies” included in our Annual Report on Form 10-K for the year ended

December 31, 2014, for a discussion of our use of captive reinsurance companies.

Shareholder Distributions

In June 2015, our Board of Directors authorized the Company to repurchase at management's discretion up to $1.0 billion of its outstanding Common Stock during the period from July 1, 2015 through June 30, 2016. This authorization succeeds the Board's previous $1.0 billion repurchase authority, which covered the prior twelve month period. The timing and amount of share repurchases will be determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act. The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial's Common Stock, for the three months ended March 31 and June 30, 2015.

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| Three months ended: | Dividend Amount | | Shares Repurchased | |
|---|---|---|---|---|
| | Per Share | Aggregate | Shares | Total Cost |
| | (in millions, except per share data) | | | |
| March 31, 2015 | $0.58 | $267 | 3.1 | $250 |
| June 30, 2015 | $0.58 | $265 | 2.9 | $250 |

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

Liquidity

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

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

Liquidity of Prudential Financial

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

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

As of June 30, 2015, Prudential Financial had cash and short-term investments of $9,758 million, a decrease of $1,306 million from December 31, 2014. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding net borrowings from this intercompany liquidity account, Prudential Financial had cash and short-term investments of $5,716 million as of June 30, 2015, an increase of $1,400 million from December 31, 2014.

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

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| | Six Months Ended June 30, 2015 (in millions) |
|---|---|
| Sources: | |
| Dividends and/or returns of capital from subsidiaries(1) | $2,940 |
| Net receipts under intercompany loan agreements(2) | 2,644 |
| Proceeds from the issuance of junior subordinated debt (hybrid securities) | 1,000 |
| Proceeds from stock-based compensation and exercise of stock options | 216 |
| Proceeds from the issuance of retail medium-term notes | 180 |
| Interest income from subsidiaries on intercompany agreements, net of interest paid | 53 |
| Proceeds from short-term debt, net of repayments | 45 |
| Total sources | 7,078 |
| Uses: | |
| Capital contributions to subsidiaries(3) | 1,598 |
| Maturities of medium-term notes, excluding retail medium-term notes | 1,248 |
| Class B Stock repurchase(4) | 651 |
| Common Stock dividends(5) | 537 |
| Share repurchases(6) | 502 |
| Interest paid on external debt | 484 |
| Net income tax payments | 463 |
| Repayment of retail medium-term notes | 59 |
| Other, net | 136 |
| Total uses | 5,678 |
| Net increase (decrease) in cash and short-term investments | $1,400 |

(1) Includes dividends and/or returns of capital of $1,950 million from Prudential Insurance, $480 million from International subsidiaries, $336 million from Prudential Annuities Holding Company, of which $270 million was from PALAC, $144 million from Asset Management subsidiaries, and $30 million from other subsidiaries.

(2) Includes net receipts from subsidiaries of $2,113 million from Pruco Reinsurance, Ltd. (“Pruco Re”) and $292 million from Asset Management subsidiaries, and net proceeds of $561 million from the issuance of notes to International subsidiaries, offset by net borrowing of $22 million by Pruco Life, and net repayments of $200 million to Pruco Re, and $100 million to Prudential Mortgage Capital Company.

(3) Includes capital contributions of $1,562 million to Pruco Re, $33 million to International subsidiaries, and $3 million to Asset Management subsidiaries.

(4) Class B Stock repurchase settlement.

(5) Includes cash payments made on dividends declared in prior periods.

(6) Includes $13 million related to trades that settled in January 2015 and excludes $11 million related to trades that settled in July 2015.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. In the United States, dividends above thresholds calculated under applicable insurance laws are considered “extraordinary” and require the approval of the relevant state insurance regulator. Also, more generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors. See Note 15 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, for details on specific dividend restrictions.

Domestic insurance subsidiaries. In May 2015, Prudential Insurance paid an extraordinary dividend in the amount of $1.95 billion to its parent, Prudential Financial. In June 2015, PALAC paid an extraordinary dividend of $270 million to Prudential Financial.

International insurance subsidiaries. During the first six months of 2015, Prudential of Korea paid a dividend of 35.0 billion, or approximately $30 million, to its parent, Prudential International Insurance Holding Ltd., which was ultimately sent to Prudential Financial.

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



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Liquidity of Insurance Subsidiaries

We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

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

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

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

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Prudential Insurance | PLIC(1) | PRIAC | Other(2) | Total | December 31, 2014 |
| | (in billions) | | | | | |
| Cash and short-term investments | $3.9 | $2.0 | $0.5 | $0.5 | $6.9 | $7.7 |
| Fixed maturity investments: | | | | | | |
| High or highest quality | 90.4 | 33.7 | 18.0 | 8.4 | 150.5 | 157.8 |
| Other than high or highest quality | 6.1 | 3.9 | 1.9 | 0.7 | 12.6 | 11.6 |
| Subtotal | 96.5 | 37.6 | 19.9 | 9.1 | 163.1 | 169.4 |
| Public equity securities | 0.2 | 3.3 | 0.0 | 0.1 | 3.6 | 4.0 |
| Total | $100.6 | $42.9 | $20.4 | $9.7 | $173.6 | $181.1 |

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(1) Prudential Legacy Insurance Company of New Jersey.
(2) Includes PALAC and Pruco Life.

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

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Prudential of Japan | Gibraltar Life(1) | All Other(2) | Total | December 31, 2014 |
| | (in billions) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Cash and short-term investments | $1.0 | $1.8 | $1.5 | $4.3 | $2.1 |
| Fixed maturity investments: | | | | | |
| High or highest quality(3) | 26.7 | 78.8 | 14.7 | 120.2 | 123.9 |
| Other than high or highest quality | 0.5 | 2.7 | 0.2 | 3.4 | 3.0 |
| Subtotal | 27.2 | 81.5 | 14.9 | 123.6 | 126.9 |
| Public equity securities | 1.8 | 2.4 | 0.5 | 4.7 | 4.3 |
| Total | $30.0 | $85.7 | $16.9 | $132.6 | $133.3 |

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(1) Includes Prudential Gibraltar Financial Life Insurance Co., Ltd., a wholly-owned subsidiary of Gibraltar Life.
(2) Represents our international insurance operations, excluding Japan.

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(3) Of the $120.2 billion of fixed maturity investments that are not designated as held-to-maturity and considered high or highest quality as of June 30, 2015, $81.9 billion, or 68%, were invested in government or government agency bonds.

Liquidity associated with other activities

Hedging activities associated with living benefit guarantees

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

The living benefits hedging activity in Pruco Re may also result in collateral postings on derivatives to or from counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs. Also, certain derivatives entered into on or after June 10, 2013, are subject to mandatory clearing requirements under Dodd-Frank and, as a result, typically have additional collateral requirements. As of June 30, 2015, the living benefit hedging derivatives were in a net receive position of $3.4 billion compared to a net receive position of $4.7 billion as of December 31, 2014. The change in collateral position was primarily driven by an increase in interest rates.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. The hedging strategy includes two primary components:

Income Hedges—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of June 30, 2015, we have hedged 100%, 92%, 50% and 8% of expected yen-based earnings for 2015, 2016, 2017 and 2018 respectively.

Equity Hedges—We hold both internal and external hedges primarily to hedge our U.S. dollar-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their U.S. dollar-denominated investments hedging our U.S. dollar-equivalent equity attributable to changes in the yen-U.S. dollar exchange rate.

For additional information on our hedging strategy, see "—Results of Operations by Segment—International Insurance Division."

Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either yen-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. A significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities.

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| Cash Settlements: | Six months ended June 30, 2015 | 2014 |
|---|---|---|
| | (in millions) | |
| Income Hedges (External)(1) | $161 | $144 |
| Equity Hedges: | | |
| Internal | 615 | 274 |
| External | (151) | 56 |
| Total Equity Hedges | 464 | 330 |
| Total Cash Settlements | $625 | $474 |

| Assets/Liabilities: | As of June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Income Hedges (External)(2) | $286 | $404 |
| Equity Hedges: | | |
| Internal | 1,540 | 1,841 |
| External | 774 | 597 |
| Total Equity Hedges(3) | 2,314 | 2,438 |
| Total Assets/Liabilities | $2,600 | $2,842 |

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(1) Includes Korean won related cash settlements of $(4) million and $(12) million for the six months ended June 30, 2015 and 2014, respectively.

(2) Includes a Korean won related asset of $10 million and $2.5 million as of June 30, 2015 and December 31, 2014, respectively.

(3) As of June 30, 2015, approximately 13%, 23% and 64% of the net asset is scheduled to settle in the remainder of 2015, 2016 and thereafter, respectively. The net market value of the assets/liabilities will vary with changing market conditions to the extent there are no corresponding offsetting positions.

Asset Management operations

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

The principal sources of liquidity for our strategic investments held in our asset management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Financial and Prudential Funding, LLC (“Prudential Funding”), a wholly-owned subsidiary of Prudential Insurance. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There have been no material changes to the liquidity position of our asset management operations since December 31, 2014.

Alternative Sources of Liquidity

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

- Asset-based financing, as discussed further below.
- Membership in the Federal Home Loan Banks, which provides Prudential Insurance and PRIAC the ability to obtain loans and to issue funding agreements up to specified regulatory limits that are collateralized by qualifying mortgage-related assets or U.S. Treasury securities. As of June 30, 2015, Prudential Insurance had an estimated maximum borrowing capacity of $7.4 billion, of which $2.0 billion was outstanding, and PRIAC had an estimated maximum borrowing capacity of $0.2 billion with no advances outstanding. As of June 30, 2015, Prudential Insurance and PRIAC had qualifying assets available but not pledged with fair value of $4.5 billion and $1.9 billion, respectively.
- Commercial paper programs maintained by Prudential Financial and Prudential Funding, with authorized issuance capacity of $3.0 billion and $7.0 billion, respectively, of which $141 million and $731 million, respectively, were outstanding as of June 30, 2015.
- A $4.0 billion syndicated, committed credit facility that expires in April 2020, and has Prudential Financial and Prudential Funding as borrowers. This credit facility, which was entered into on April 14, 2015, amends and restates our previously-

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existing $2.0 billion five-year credit facility and $1.75 billion three-year credit facility. There were no outstanding borrowings under this credit facility as of June 30, 2015, or as of the date of this filing.

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

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

Asset-based Financing

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

The following table sets forth our liabilities under asset-based or secured financing programs as of the dates indicated.

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | PFI Excluding Closed Block Division | Closed Block Division | Consolidated | PFI Excluding Closed Block Division | Closed Block Division | Consolidated |
| | ($ in millions) | | | | | |
| Securities sold under agreements to repurchase | $4,592 | $3,271 | $ 7,863 | $5,492 | $3,915 | $ 9,407 |
| Cash collateral for loaned securities | 2,679 | 1,129 | 3,808 | 3,064 | 1,177 | 4,241 |
| Securities sold but not yet purchased | 62 | 0 | 62 | 77 | 0 | 77 |
| Total(1) | $7,333 | $4,400 | $ 11,733 | $8,633 | $5,092 | $ 13,725 |
| Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral | $5,304 | $1,708 | $ 7,012 | $6,610 | $1,975 | $ 8,585 |
| Weighted average maturity, in days(2) | 17 | 25 | | 23 | 52 | |

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(1) The daily weighted average outstanding balance for the three and six months ended June 30, 2015, was $7,994 million and $8,399 million, respectively, for PFI excluding the Closed Block division, and $5,014 million and $5,119 million, respectively, for the Closed Block division.

(2) Excludes securities that may be returned to the Company overnight.

As of June 30, 2015, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of $101.4 billion, of which $11.5 billion were on loan. Taking into account market conditions and outstanding loan balances as of June 30, 2015, we believe approximately $15.8 billion of the remaining eligible assets

are readily lendable, including approximately $12.2 billion relating to PFI excluding the Closed Block division, of which $2.0 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining $3.6 billion relating to the Closed Block division.

Financing Activities

As of June 30, 2015, total short- and long-term debt of the Company on a consolidated basis was $23.9 billion, an increase of $0.2 billion from December 31, 2014. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such repurchases will depend on prevailing market conditions, our liquidity position and other factors.



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| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Prudential Financial | Other Subsidiaries | Consolidated | Prudential Financial | Other Subsidiaries | Consolidated |
| | (in millions) | | | | | |
| General obligation short-term debt: | | | | | | |
| Commercial paper | $141 | $ 731 | $ 872 | $97 | $ 386 | $ 483 |
| Current portion of long-term debt and other(1)(2) | 1,666 | 1,083 | 2,749 | 2,222 | 1,134 | 3,356 |
| Subtotal | 1,807 | 1,814 | 3,621 | 2,319 | 1,520 | 3,839 |
| General obligation long-term debt: | | | | | | |
| Senior debt | 10,606 | 1,923 | 12,529 | 11,177 | 1,927 | 13,104 |
| Junior subordinated debt | 5,884 | 0 | 5,884 | 4,884 | 0 | 4,884 |
| Surplus notes(3) | 0 | 1,341 | 1,341 | 0 | 1,341 | 1,341 |
| Subtotal | 16,490 | 3,264 | 19,754 | 16,061 | 3,268 | 19,329 |
| Total general obligations | 18,297 | 5,078 | 23,375 | 18,380 | 4,788 | 23,168 |
| Limited recourse borrowing(4): | | | | | | |
| Long-term debt | 0 | 510 | 510 | 0 | 502 | 502 |
| Total limited recourse borrowings | 0 | 510 | 510 | 0 | 502 | 502 |
| Total borrowings | $18,297 | $ 5,588 | $ 23,885 | $18,380 | $ 5,290 | $ 23,670 |

(1) Does not include $2,705 million of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes at both June 30, 2015 and December 31, 2014, or $1,697 million and $1,947 million of collateralized funding agreements issued to the Federal Home Loan Bank of New York as of June 30, 2015 and December 31, 2014, respectively. These notes and funding agreements are included in “Policyholders’ account balances.” For additional information on these obligations, see Note 9 to our Unaudited Interim Consolidated Financial Statements contained herein and Note 10 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

(2) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $280 million at both June 30, 2015 and December 31, 2014. For additional information on these borrowings, see Note 9 to our Unaudited Interim Consolidated Financial Statements.

(3) Amounts are net of assets under set-off arrangements of $4,543 million and $3,973 million as of June 30, 2015 and December 31, 2014, respectively.

(4) Limited and non-recourse borrowing primarily represents mortgage debt of our subsidiaries that has recourse only to real estate investment property.

As of June 30, 2015 and December 31, 2014, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on our short- and long-term debt obligations, see Note 9 to our Unaudited Interim Consolidated Financial Statements contained herein and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Prudential Financial’s borrowings of $18.3 billion decreased $83 million from December 31, 2014, driven by the maturity of $1.3 billion of medium-term notes and retail notes, partially offset by the issuance of $1.0 billion of junior subordinated notes and $0.2 billion of retail notes. Borrowings of our subsidiaries of $5.6 billion increased $298 million from December 31, 2014, primarily driven by an increase in commercial paper issuances.

Term and Universal Life Reserve Financing

We use captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held by our domestic life insurance companies under Regulation XXX and Guideline AXXX that we consider to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our captive reinsurers and the issuance of surplus notes by those captives that are treated as capital for statutory purposes.

To date, we have entered into agreements with external counterparties providing for the issuance of up to an aggregate of $8.25 billion of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"). Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. As of June 30, 2015, an aggregate of $5.543 billion of surplus notes was outstanding under our Credit-Linked Note Structures, reflecting an increase of $570 million since December 31, 2014. For more information on our Credit-Linked Note Structures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing Activities" in our Annual Report on Form 10-K for the year ended December 31, 2014.

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The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of June 30, 2015.

| Credit-Linked Note Structures: | Surplus Notes Original Issue Dates | Maturity Dates | Outstanding as of June 30, 2015 | | Facility Size |
|---|---|---|---|---|---|
| | ($ in millions) | | | | |
| XXX | 2011-2014 | 2021-2024 | $1,750 | (1) | $2,000 |
| AXXX | 2013 | 2033 | 2,100 | | 3,500 |
| XXX | 2014 | 2034 | 1,000 | (1)(2) | 1,000 |
| XXX | 2014 | 2024 | 693 | | 1,750 |
| Total Credit-Linked Note Structures | | | $5,543 | | $8,250 |

(1) Prudential Financial has agreed to reimburse any amounts paid under the credit-linked notes issued in these structures.
(2) The $1 billion surplus note represents an intercompany transaction that eliminates upon consolidation.

As of June 30, 2015, we also had outstanding an aggregate of $4.0 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately $2.4 billion relates to Regulation XXX reserves and approximately $1.6 billion relates to Guideline AXXX reserves, all of which was issued directly by or guaranteed by Prudential Financial. Under certain of the financing arrangements pursuant to which this debt was issued, Prudential Financial has agreed to make capital contributions to the applicable captive reinsurance subsidiary to reimburse it for investment losses or to maintain its capital above prescribed minimum levels. In addition, as of June 30, 2015, for purposes of financing Guideline AXXX reserves, our captives had outstanding approximately $4.0 billion of surplus notes that were issued to affiliates.

In December 2014, the NAIC adopted a new actuarial guideline, known as “AG 48,” that governs the reinsurance of term and universal life insurance business to captives by prescribing requirements for the types of assets that may be held by captives to support the reserves. The requirements in AG 48 became effective on January 1, 2015, and apply in respect of term and universal life insurance policies written from and after January 1, 2015, or written prior to January 1, 2015, but not included in a captive reserve financing arrangement as of December 31, 2014. AG 48 will, for a period of time, require us to hold cash or rated securities in greater amounts than we currently hold to support economic reserves for certain of our term and universal life policies. We may seek to finance all or a portion of this requirement, but we have not yet finalized our funding plans.

Other Insurance Financing

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing Activities—Secured Borrowings” included in our Annual Report on Form 10-K for the year ended December 31, 2014, for a discussion of our use of captive reinsurance companies.

Ratings

The following is an update of the discussion included under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Ratings" in our Annual Report on Form 10-K for the year ended December 31, 2014, and should be read in conjunction with the Form 10-K.

On May 13, 2015, A.M. Best affirmed Prudential Financial’s long-term senior debt rating at “a-” and short-term debt rating at “AMB-1”. A.M. Best also affirmed the “A+” financial strength ratings of Prudential Financial’s core subsidiaries,

including Prudential Insurance, PALAC and PRIAC, with stable outlooks.

On May 15, 2015, Fitch affirmed Prudential Financial's long-term senior debt rating at "A-" and the financial strength ratings of our U.S. operating entities at "A+", with positive outlooks.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

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

Other Contingent Commitments

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

Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. See Note 9 to our Unaudited Interim Consolidated Financial Statements for more information on this put option agreement. In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of June 30, 2015, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, neither of the notes is reflected in the Company's Unaudited Interim Consolidated Financial Statements as of that date.

Other than as described above, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the agreements referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. There have been no material changes in our market risk exposures from December 31, 2014, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2014, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the Securities and Exchange Commission. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2014, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

## ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2015. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2015, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended June 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under "Forward-Looking Statements" above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

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

(c) The following table provides information about purchases by the Company during the three months ended June 30, 2015, of its Common Stock:

| Period | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program(2) | Approximate Dollar Value of Shares that May Yet be Purchased under the Program(2)(3) |
|---|---|---|---|---|
| April 1, 2015 through April 30, 2015 | 1,037,838 | $ 80.53 | 1,034,779 | |
| May 1, 2015 through May 31, 2015 | 974,742 | $ 85.65 | 972,983 | |
| June 1, 2015 through June 30, 2015 | 950,789 | $ 88.80 | 938,425 | |
| Total | 2,963,369 | $ 84.87 | 2,946,187 | $0 |

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

(2) In June 2014, the Board authorized the Company to repurchase up to $1.0 billion of its outstanding Common Stock during the twelve month period from July 1, 2014 through June 30, 2015.

(3) The stock repurchase program authorized in June 2014 expired on June 30, 2015; therefore, the Company can no longer purchase any additional shares of Common Stock under this authorization. In June 2015, the Board authorized the Company to repurchase up to $1.0 billion of its outstanding Common Stock during the twelve month period from July 1, 2015 through June 30, 2016.

Explanation of Responses:

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ITEM 6. EXHIBITS

See accompanying Exhibit Index.

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SIGNATURES

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

Prudential Financial, Inc.
By: /S/ ROBERT M. FALZON
Robert M. Falzon
Executive Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: August 6, 2015

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EXHIBIT INDEX

| | |
|---|---|
| 10.1 | Amended and Restated Credit Agreement dated as of April 14, 2015 among Prudential Financial, Inc., Prudential Funding, LLC, as Borrowers, The Prudential Insurance Company of America, JP Morgan, as Administrative Agent and Several L/C Agent, and the lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Registrant's April 17, 2015 Current Report on Form 8-K. |
| 12.1 | Statement of Ratio of Earnings to Fixed Charges. |
| 31.1 | Section 302 Certification of the Chief Executive Officer. |
| 31.2 | Section 302 Certification of the Chief Financial Officer. |
| 32.1 | Section 906 Certification of the Chief Executive Officer. |
| 32.2 | Section 906 Certification of the Chief Financial Officer. |
| 101.INS - XBRL | Instance Document. |
| 101.SCH - XBRL | Taxonomy Extension Schema Document. |
| 101.CAL - XBRL | Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB - XBRL | Taxonomy Extension Label Linkbase Document. |
| 101.PRE - XBRL | Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF - XBRL | Taxonomy Extension Definition Linkbase Document. |

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

Shareholder Services
Prudential Financial, Inc.
751 Broad Street, 21st Floor
Newark, New Jersey 07102

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