

PRUDENTIAL FINANCIAL INC

Form 10-Q

August 04, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the Transition Period from _____ to _____

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey 22-3703799

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, 427 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends," "should," "will," "shall" or variations of these words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX, Guideline AXXX and principles-based reserving requirements; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor's fiduciary rules; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by the Company; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in accounting principles, practices or policies; and (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2016 for discussion of certain risks relating to our businesses and investment in our securities.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

June 30, 2017 and December 31, 2016 (in millions, except share amounts)

	June 30, 2017	December 31, 2016
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2017-\$303,287; 2016-\$292,581)(1)	\$ 335,254	\$ 321,419
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2017-\$2,516; 2016-\$2,524)(1)	2,123	2,144
Trading account assets supporting insurance liabilities, at fair value(1)	22,073	21,840
Other trading account assets, at fair value(1)	6,773	5,764
Equity securities, available-for-sale, at fair value (cost: 2017-\$7,456; 2016-\$7,149)	10,151	9,748
Commercial mortgage and other loans (includes \$525 and \$519 measured at fair value under the fair value option at June 30, 2017 and December 31, 2016, respectively)(1)	54,915	52,779
Policy loans	11,719	11,755
Other long-term investments (includes \$1,833 and \$1,556 measured at fair value under the fair value option at June 30, 2017 and December 31, 2016, respectively)(1)	11,777	11,283
Short-term investments	3,616	7,508
Total investments	458,401	444,240
Cash and cash equivalents(1)	16,605	14,127
Accrued investment income(1)	3,228	3,204
Deferred policy acquisition costs	18,715	17,661
Value of business acquired	1,897	2,314
Other assets(1)	16,311	14,780
Separate account assets	297,433	287,636
TOTAL ASSETS	\$ 812,590	\$ 783,962
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 250,706	\$ 240,908
Policyholders' account balances	147,554	145,205
Policyholders' dividends	6,285	5,711
Securities sold under agreements to repurchase	8,817	7,606
Cash collateral for loaned securities	4,036	4,333
Income taxes	11,631	10,412
Short-term debt	1,779	1,133
Long-term debt	17,626	18,041
Other liabilities(1)	15,907	14,739
Notes issued by consolidated variable interest entities (includes \$1,853 and \$1,839 measured at fair value under the fair value option at June 30, 2017 and December 31, 2016, respectively)(1)	2,176	2,150
Separate account liabilities	297,433	287,636
Total liabilities	763,950	737,874
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0

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Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both June 30, 2017 and December 31, 2016)	6	6
Additional paid-in capital	24,671	24,606
Common Stock held in treasury, at cost (233,067,215 and 230,537,166 shares at June 30, 2017 and December 31, 2016, respectively)	(15,741)	(15,316)
Accumulated other comprehensive income (loss)	16,362	14,621
Retained earnings	23,146	21,946
Total Prudential Financial, Inc. equity	48,444	45,863
Noncontrolling interests	196	225
Total equity	48,640	46,088
TOTAL LIABILITIES AND EQUITY	\$812,590	\$ 783,962

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

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Six Months Ended June 30, 2017 and 2016 (in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Premiums	\$8,326	\$6,935	\$14,807	\$13,232
Policy charges and fee income	725	1,276	2,258	2,875
Net investment income	4,089	3,789	8,150	7,459
Asset management and service fees	973	920	1,924	1,825
Other income (loss)	420	86	637	63
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(53)	(17)	(110)	(175)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	7	6	10	38
Other realized investment gains (losses), net	(1,046)	1,444	(565)	3,451
Total realized investment gains (losses), net	(1,092)	1,433	(665)	3,314
Total revenues	13,441	14,439	27,111	28,768
BENEFITS AND EXPENSES				
Policyholders' benefits	8,328	7,989	15,353	15,020
Interest credited to policyholders' account balances	947	1,058	1,887	2,344
Dividends to policyholders	491	598	1,106	864
Amortization of deferred policy acquisition costs	84	427	523	1,629
General and administrative expenses	2,983	3,026	5,892	5,838
Total benefits and expenses	12,833	13,098	24,761	25,695
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	608	1,341	2,350	3,073
Total income tax expense (benefit)	125	431	520	799
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	483	910	1,830	2,274
Equity in earnings of operating joint ventures, net of taxes	13	15	38	20
NET INCOME (LOSS)	496	925	1,868	2,294
Less: Income (loss) attributable to noncontrolling interests	5	4	8	37
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	\$491	\$921	\$1,860	\$2,257
EARNINGS PER SHARE				
Basic earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	\$1.13	\$2.06	\$4.28	\$5.03
Diluted earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	\$1.12	\$2.04	\$4.21	\$4.97
Dividends declared per share of Common Stock	\$0.75	\$0.70	\$1.50	\$1.40

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income
 Three and Six Months Ended June 30, 2017 and 2016 (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME (LOSS)	\$496	\$925	\$1,868	\$2,294
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	45	546	597	1,283
Net unrealized investment gains (losses)	2,491	7,907	1,682	17,320
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	55	39	99	73
Total	2,591	8,492	2,378	18,676
Less: Income tax expense (benefit) related to other comprehensive income (loss)	872	2,892	656	6,291
Other comprehensive income (loss), net of taxes	1,719	5,600	1,722	12,385
Comprehensive income (loss)	2,215	6,525	3,590	14,679
Less: Comprehensive income (loss) attributable to noncontrolling interests	5	3	(11)	40
Comprehensive income (loss) attributable to Prudential Financial, Inc.	\$2,210	\$6,522	\$3,601	\$14,639

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity
Six Months Ended June 30, 2017 and 2016 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontro lled Interests	Total Equity
Balance, December 31, 2016	\$6	\$24,606	\$21,946	\$(15,316)	\$14,621	\$45,863	\$225	\$46,088
Cumulative effect of adoption of accounting changes		5	(5)			0		0
Common Stock acquired				(625)		(625)		(625)
Contributions from noncontrolling interests							8	8
Distributions to noncontrolling interests							(27)	(27)
Consolidations/(deconsolidations) of noncontrolling interests							1	1
Stock-based compensation programs	60			200		260		260
Dividends declared on Common Stock			(655)			(655)		(655)
Comprehensive income:								
Net income (loss)			1,860			1,860	8	1,868
Other comprehensive income (loss), net of tax					1,741	1,741	(19)	1,722
Total comprehensive income (loss)						3,601	(11)	3,590
Balance, June 30, 2017	\$6	\$24,671	\$23,146	\$(15,741)	\$16,362	\$48,444	\$196	\$48,640

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontro lled Interests	Total Equity
Balance, December 31, 2015	\$6	\$24,482	\$18,931	\$(13,814)	\$12,285	\$41,890	\$33	\$41,923
Cumulative effect of adoption of accounting changes			11			11	(30)	(19)
Common Stock acquired				(750)		(750)		(750)
Class B Stock repurchase adjustment			(119)			(119)		(119)
Contributions from noncontrolling interests							5	5
Distributions to noncontrolling interests							(19)	(19)
Stock-based compensation programs	(25)			132		107		107
Dividends declared on Common Stock			(629)			(629)		(629)
Comprehensive income:								

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Net income (loss)		2,257			2,257	37	2,294	
Other comprehensive income (loss), net of tax				12,382	12,382	3	12,385	
Total comprehensive income (loss)					14,639	40	14,679	
Balance, June 30, 2016	\$6	\$24,457	\$20,451	\$(14,432)	\$24,667	\$55,149	\$29	\$55,178

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Six Months Ended June 30, 2017 and 2016 (in millions)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$1,868	\$2,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	665	(3,314)
Policy charges and fee income	(1,263)	(894)
Interest credited to policyholders' account balances	1,887	2,344
Depreciation and amortization	107	424
(Gains) losses on trading account assets supporting insurance liabilities, net	(245)	(324)
Change in:		
Deferred policy acquisition costs	(957)	227
Future policy benefits and other insurance liabilities	3,949	4,267
Income taxes(1)	559	283
Derivatives, net	(1,490)	9,357
Other, net(1)	(377)	(1,140)
Cash flows from (used in) operating activities	4,703	13,524
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	28,990	24,028
Fixed maturities, held-to-maturity	89	121
Trading account assets supporting insurance liabilities and other trading account assets	18,662	14,270
Equity securities, available-for-sale	1,897	1,755
Commercial mortgage and other loans	2,630	3,034
Policy loans	1,309	1,167
Other long-term investments	595	269
Short-term investments	17,285	27,859
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(34,153)	(33,380)
Trading account assets supporting insurance liabilities and other trading account assets	(18,736)	(14,729)
Equity securities, available-for-sale	(1,610)	(1,527)
Commercial mortgage and other loans	(4,494)	(3,743)
Policy loans	(915)	(941)
Other long-term investments	(769)	(865)
Short-term investments	(13,303)	(25,021)
Acquisition of business, net of cash acquired	(64)	(532)
Derivatives, net	244	268
Other, net	(444)	178
Cash flows from (used in) investing activities	(2,787)	(7,789)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	13,648	12,631
Policyholders' account withdrawals	(12,706)	(9,807)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	914	600
Cash dividends paid on Common Stock	(653)	(631)
Net change in financing arrangements (maturities 90 days or less)	46	40
Common Stock acquired	(612)	(733)

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Class B stock acquired	0	(119)
Common Stock reissued for exercise of stock options	161	54
Proceeds from the issuance of debt (maturities longer than 90 days)	321	197
Repayments of debt (maturities longer than 90 days)	(216)	(1,382)
Excess tax benefits from share-based payment arrangements	0	3
Other, net(1)	(451)	(269)
Cash flows from (used in) financing activities	452	584
Effect of foreign exchange rate changes on cash balances	110	211
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,478	6,530
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,127	17,612
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$16,605	\$24,142
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	\$98	\$111
Significant Pension Risk Transfer transactions:		
Assets received, excluding cash and cash equivalents	\$1,294	\$0
Liabilities assumed	1,685	0
Net cash received	\$391	\$0
Acquisition:		
Assets acquired, excluding cash and cash equivalents	\$196	\$0
Liabilities assumed	132	0
Net cash paid on acquisition	\$64	\$0

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

The Company’s principal operations are comprised of four divisions: the U.S. Retirement Solutions and Investment Management division, the U.S. Individual Life and Group Insurance division, the International Insurance division and the Closed Block division. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in the Company’s Corporate and Other operations. The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested, excluding the Closed Block division.

Basis of Presentation

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

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The Company’s Gibraltar Life Insurance Company, Ltd. (“Gibraltar Life”) consolidated operations use a November 30 fiscal year end for purposes of inclusion in the Company’s Consolidated Financial Statements. The Company’s unaudited interim consolidated balance sheet data as of June 30, 2017, include the assets and liabilities of Gibraltar Life as of May 31, 2017. The Company’s unaudited interim consolidated income statement data include Gibraltar Life’s results of operations for the three and six months ended May 31, 2017 and 2016, respectively.

Use of Estimates

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

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

Out of Period Adjustments

During the second quarter of 2016, the Company recorded an out of period adjustment resulting in a decrease of \$148 million to “Income (loss) before income taxes and equity in earnings of operating joint ventures” for the three-month period ended June 30, 2016. The adjustment reflects a charge to increase reserves, net of a related increase in DAC, for certain universal life products within the Individual Life business. Management evaluated the adjustment and concluded it was not material to the then current

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

quarter or to any previously reported quarterly or annual financial statements. See Note 11 for additional information on the impact of this adjustment to the Company's operating segments.

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Accounting for Certain Reinsurance Contracts in our Individual Life business

During the second quarter of 2017, the Company recognized a charge of \$237 million in the Individual Life segment, reflecting a change in estimate of reinsurance cash flows associated with universal life products as well as a change in method of reflecting these cash flows in the financial statements. Under the previous method of accounting, with the exception of recoveries pertaining to no lapse guarantees, reinsurance cash flows (e.g., premiums and recoveries) were generally recognized as they occurred. Under the new method, the expected reinsurance cash flows are recognized more ratably over the life of the underlying reinsured policies. In conjunction with this change, the way in which reinsurance is reflected in estimated gross profits used for the amortization of unearned revenue reserves, deferred policy acquisition costs and VOBA was also revised. The change represents a change in accounting estimate effected by a change in accounting principle and is included within the Company's annual reviews and update of assumptions and other refinements. The change in accounting estimate reflected insights gained from revised cashflow modeling enabled by a systems conversion, which prompted the change to a preferable accounting method. This new methodology is viewed as preferable as the Company believes it better reflects the economics of reinsurance transactions by aligning the results of reinsurance activity more closely to the underlying direct insurance activity and by better reflecting the profit pattern of this business for purposes of the amortization of the balances noted above.

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASU") to the FASB Accounting Standards Codification.

The Company considers the applicability and impact of all ASU. ASU listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of the date of this filing. ASU not listed below were assessed and determined to be either not applicable or not material.

ASU adopted during the six months ended June 30, 2017

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting	This ASU simplifies and improves employee share-based payment accounting. The areas updated include income tax consequences, a policy election related to forfeitures, classification of awards as either equity	January 1, 2017 using various transition methods as prescribed by the ASU.	Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial

or liability, and classification of
operating and financing activity on the
statement of cash flows.

Statements.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

ASU issued but not yet adopted as of June 30, 2017

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	The ASU is based on the core principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, and assets recognized from the costs to obtain or fulfill a contract with a customer. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the standard.	January 1, 2018 using the modified retrospective method.	Given that insurance contracts and financial instruments are explicitly scoped out of the standard, the Company's assessment has focused on the Asset Management segment. Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Asset Management segment's results of operations.
ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities	The ASU revises an entity's accounting related to the recognition and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The standard also amends certain disclosure requirements associated with the fair value of financial instruments.	January 1, 2018 using the modified retrospective method. The amendments are to be applied prospectively as they relate to equity investments without readily determinable fair value.	The Company's equity investments, except for those accounted for using the equity method, will generally be carried on the Consolidated Statements of Financial Position at fair value with changes in fair value reported in current earnings. The Company is continuing to assess additional impacts of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-02, Leases (Topic 842)	This ASU ensures that assets and liabilities from all outstanding lease contracts are recognized on the balance sheet (with limited exception). The ASU substantially changes a Lessee's accounting for leases and requires the recording on balance sheet of a "right-of-use" asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting standard. For Lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset ("receivable and residual" approach). The standard also eliminates the real estate specific provisions of the current standard (i.e., sale-leaseback).	January 1, 2019 using the modified retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current OTTI standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing standard for purchased credit deteriorated loans and debt securities.	January 1, 2020 using the modified retrospective method, however prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019.	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-15, Statement of Cash Flows (Topic 230):	This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash	January 1, 2018 using the retrospective method (with early adoption	The Company is currently assessing the impact of the

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Classification of
Certain Cash
Receipts and Cash
Payments (a
Consensus of the
Emerging Issues
Task Force)

flows. The standard provides clarity on the
treatment of eight specifically defined types of
cash inflows and outflows.

permitted provided that
all amendments are
adopted in the same
period).

ASU on the
Company's
Consolidated
Financial
Statements and
Notes to the
Consolidated
Financial
Statements.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash	In November 2016, the FASB issued this ASU to address diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities in the Statement of Cash Flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows.	January 1, 2018 using the retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	In January 2017, the FASB issued this ASU to provide a more robust framework to use in determining when a set of assets and activities ("set") is a business and to address stakeholder feedback that the definition of a business in current GAAP is applied too broadly. The primary amendments in the ASU provide a screen to exclude transactions where substantially all the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business.	January 1, 2018 using the prospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. It is expected that our general account real estate acquisitions will no longer be accounted for as business combinations.
ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	In February 2017, the FASB issued this ASU to clarify the scope and application of ASC 610-20 which provides guidance on accounting for the derecognition of a nonfinancial asset or an in substance nonfinancial asset that is not a business. The ASU defines an in substance nonfinancial asset and requires the application of certain recognition and measurement principles in the new revenue recognition standard when an entity derecognizes nonfinancial assets and in substance nonfinancial assets, and the counterparty is not a customer.	January 1, 2018 using the full or modified retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

<p>ASU 2017-08, Receivables -Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities</p>	<p>This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date.</p>	<p>January 1, 2019 using the modified retrospective method (with early adoption permitted).</p>	<p>The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.</p>
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3. ACQUISITIONS

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

In March 2016, the Company completed the purchase of an indirect 40% ownership interest in Administradora de Fondos de Pensiones Habitat S.A. ("AFP Habitat"), a leading provider of retirement services in Chile, from Inversiones La Construcción S.A. ("ILC"), the investment subsidiary of the Chilean Construction Chamber. The Company paid 899.90 Chilean pesos per share, for a total purchase price of approximately \$532 million based on exchange rates at the share acquisition date. The Company and ILC now equally own an indirect controlling stake in AFP Habitat through a joint holding company. The Company's investment is accounted for under the equity method and is recorded within "Other assets." This acquisition enables the Company to participate in the growing Chilean pension market.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	June 30, 2017				
	Amortized Cost or Cost (in millions)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI(4)
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$21,677	\$ 3,698	\$ 616	\$24,759	\$ 0
Obligations of U.S. states and their political subdivisions	9,308	912	25	10,195	0
Foreign government bonds	85,347	15,903	439	100,811	0
U.S. corporate public securities	79,445	7,384	602	86,227	(10)
U.S. corporate private securities(1)	30,665	2,257	162	32,760	(8)
Foreign corporate public securities	25,989	2,964	134	28,819	(5)
Foreign corporate private securities	22,652	889	601	22,940	0
Asset-backed securities(2)	11,229	211	30	11,410	(258)
Commercial mortgage-backed securities	13,011	265	92	13,184	0
Residential mortgage-backed securities(3)	3,964	196	11	4,149	(3)
Total fixed maturities, available-for-sale(1)	\$303,287	\$ 34,679	\$ 2,712	\$335,254	\$ (284)
Equity securities, available-for-sale	\$7,456	\$ 2,730	\$ 35	\$10,151	

	June 30, 2017			
	Amortized Cost (in millions)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities, held-to-maturity:				
Foreign government bonds	\$869	\$ 265	\$ 0	\$1,134
Foreign corporate public securities	662	87	0	749
Foreign corporate private securities(5)	84	3	0	87
Commercial mortgage-backed securities	0	0	0	0
Residential mortgage-backed securities(3)	508	38	0	546
Total fixed maturities, held-to-maturity(5)	\$2,123	\$ 393	\$ 0	\$2,516

(1) Excludes notes with amortized cost of \$1,738 million (fair value, \$1,738 million), which have been offset with the associated payables under a netting agreement.

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

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

(4)

Represents the amount of OTTI losses in “Accumulated other comprehensive income (loss)” (“AOCI”), which were not included in earnings. Amount excludes \$563 million of net unrealized gains on impaired available-for-sale securities and \$2 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

- (5) Excludes notes with amortized cost of \$4,403 million (fair value, \$4,498 million), which have been offset with the associated payables under a netting agreement.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2016				
	Amortized	Gross	Gross	Fair	OTTI
	Cost or	Unrealized	Unrealized	Value	in
	Cost	Gains	Losses		AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$21,505	\$ 3,280	\$ 1,001	\$23,784	\$ 0
Obligations of U.S. states and their political subdivisions	9,060	716	84	9,692	0
Foreign government bonds	79,862	16,748	354	96,256	0
U.S. corporate public securities	76,383	6,460	1,232	81,611	(17)
U.S. corporate private securities(1)	29,974	2,122	308	31,788	(22)
Foreign corporate public securities	25,758	2,784	305	28,237	(6)
Foreign corporate private securities	21,383	646	1,149	20,880	0
Asset-backed securities(2)	11,759	229	53	11,935	(288)
Commercial mortgage-backed securities	12,589	240	125	12,704	(1)
Residential mortgage-backed securities(3)	4,308	238	14	4,532	(3)
Total fixed maturities, available-for-sale(1)	\$292,581	\$ 33,463	\$ 4,625	\$321,419	\$ (337)
Equity securities, available-for-sale	\$7,149	\$ 2,641	\$ 42	\$9,748	

	December 31, 2016			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
	(in millions)			
Fixed maturities, held-to-maturity:				
Foreign government bonds	\$839	\$ 262	\$ 0	\$1,101
Foreign corporate public securities	651	71	0	722
Foreign corporate private securities(5)	81	4	0	85
Commercial mortgage-backed securities	0	0	0	0
Residential mortgage-backed securities(3)	573	43	0	616
Total fixed maturities, held-to-maturity(5)	\$2,144	\$ 380	\$ 0	\$2,524

(1) Excludes notes with amortized cost of \$1,456 million (fair value, \$1,456 million), which have been offset with the associated payables under a netting agreement.

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

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

(4) Represents the amount of OTTI losses in AOCI, which were not included in earnings. Amount excludes \$649 million of net unrealized gains on impaired available-for-sale securities and \$1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of \$4,403 million (fair value, \$4,403 million), which have been offset with the associated payables under a netting agreement.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	June 30, 2017					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$9,174	\$ 616	\$7	\$ 0	\$9,181	\$ 616
Obligations of U.S. states and their political subdivisions	1,059	24	10	1	1,069	25
Foreign government bonds	5,664	319	1,258	120	6,922	439
U.S. corporate public securities	14,245	343	3,049	259	17,294	602
U.S. corporate private securities	4,051	101	1,064	61	5,115	162
Foreign corporate public securities	2,524	54	909	80	3,433	134
Foreign corporate private securities	2,181	36	5,926	565	8,107	601
Asset-backed securities	1,616	2	696	28	2,312	30
Commercial mortgage-backed securities	3,804	89	143	3	3,947	92
Residential mortgage-backed securities	870	10	49	1	919	11
Total	\$45,188	\$ 1,594	\$13,111	\$ 1,118	\$58,299	\$ 2,712
Equity securities, available-for-sale	\$471	\$ 35	\$2	\$ 0	\$473	\$ 35

(1) Includes \$12 million of fair value and less than \$1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of June 30, 2017.

	December 31, 2016					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$9,345	\$ 1,001	\$0	\$ 0	\$9,345	\$ 1,001
Obligations of U.S. states and their political subdivisions	2,677	79	19	5	2,696	84
Foreign government bonds	6,076	325	310	29	6,386	354
U.S. corporate public securities	22,803	905	2,943	327	25,746	1,232
U.S. corporate private securities	7,797	228	1,296	80	9,093	308
Foreign corporate public securities	5,196	162	1,047	143	6,243	305

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Foreign corporate private securities	6,557	350	4,916	799	11,473	1,149
Asset-backed securities	2,357	20	1,581	33	3,938	53
Commercial mortgage-backed securities	4,879	123	60	2	4,939	125
Residential mortgage-backed securities	926	12	78	2	1,004	14
Total	\$68,613	\$ 3,205	\$12,250	\$ 1,420	\$80,863	\$ 4,625
Equity securities, available-for-sale	\$637	\$ 41	\$12	\$ 1	\$649	\$ 42

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

(1) Includes \$12 million of fair value and less than \$1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of December 31, 2016.

As of June 30, 2017 and December 31, 2016, the gross unrealized losses on fixed maturity securities were composed of \$2,440 million and \$4,233 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$272 million and \$392 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of June 30, 2017, the \$1,118 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in foreign government bonds and in the energy, consumer non-cyclical and utility sectors of the Company’s corporate securities. As of December 31, 2016, the \$1,420 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in the energy, utility and capital goods sectors of the Company’s corporate securities. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either June 30, 2017 or December 31, 2016. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of June 30, 2017, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

As of June 30, 2017, \$10 million of the gross unrealized losses on equity securities represented declines in value of 20% or more, \$7 million of which had been in a gross unrealized loss position for less than six months. As of December 31, 2016, \$9 million of the gross unrealized losses on equity securities represented declines in value of 20% or more, \$8 million of which had been in a gross unrealized loss position for less than six months. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these equity securities was not warranted at either June 30, 2017 or December 31, 2016.

The following table sets forth the amortized cost and fair value of fixed maturities by contractual maturities, as of the date indicated:

	June 30, 2017			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Fixed maturities:				
Due in one year or less	\$12,237	\$12,884	\$4	\$4
Due after one year through five years	46,603	50,603	177	186
Due after five years through ten years	62,045	67,286	567	650
Due after ten years(1)	154,198	175,738	867	1,130
Asset-backed securities	11,229	11,410	0	0
Commercial mortgage-backed securities	13,011	13,184	0	0
Residential mortgage-backed securities	3,964	4,149	508	546
Total	\$303,287	\$335,254	\$2,123	\$2,516

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Excludes available-for-sale notes with amortized cost of \$1,738 million (fair value, \$1,738 million) and (1) held-to-maturity notes with amortized cost of \$4,403 million (fair value, \$4,498 million), which have been offset with the associated payables under a netting agreement.

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

The following table sets forth the sources of fixed maturity and equity security proceeds and related investment gains (losses), as well as losses on impairments of both fixed maturities and equity securities, for the periods indicated:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Fixed maturities, available-for-sale:				
Proceeds from sales(1)	\$8,157	\$9,232	\$15,887	\$14,354
Proceeds from maturities/prepayments	7,546	5,586	13,420	9,623
Gross investment gains from sales and maturities	410	499	801	794
Gross investment losses from sales and maturities	(135)	(55)	(298)	(297)
OTTI recognized in earnings(2)	(46)	(11)	(100)	(137)
Fixed maturities, held-to-maturity:				
Proceeds from maturities/prepayments(3)	\$39	\$75	\$89	\$125
Equity securities, available-for-sale:				
Proceeds from sales(4)	\$1,030	\$896	\$1,943	\$1,837
Gross investment gains from sales	197	138	472	248
Gross investment losses from sales	(28)	(36)	(41)	(107)
OTTI recognized in earnings	(5)	(31)	(11)	(42)

(1) Includes \$317 million and \$(51) million of non-cash related proceeds for the six months ended June 30, 2017 and 2016, respectively.

(2) Excludes the portion of OTTI recorded in “Other comprehensive income (loss)” (“OCI”), 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.

(3) Includes \$0 million and \$4 million of non-cash related proceeds for the six months ended June 30, 2017 and 2016, respectively.

(4) Includes \$46 million and \$82 million of non-cash related proceeds for the six months ended June 30, 2017 and 2016, respectively.

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

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(in millions)			
Credit loss impairments:				
Balance, beginning of period	\$350	\$359	\$543	\$532
New credit loss impairments	7	7	7	27
Additional credit loss impairments on securities previously impaired	0	1	0	0
Increases due to the passage of time on previously recorded credit losses	4	7	7	12
Reductions for securities which matured, paid down, prepaid or were sold during the period	(7)	(16)	(131)	(141)
Reductions for securities impaired to fair value during the period(1)	(11)	(14)	0	(2)
	(2)	(3)	(2)	(4)

Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected

Balance, end of period	\$341	\$ 341	\$ 424	\$ 424
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(1) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Trading Account Assets Supporting Insurance Liabilities

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

	June 30, 2017		December 31, 2016	
	Amortized Cost or Cost (in millions)	Fair Value	Amortized Cost or Cost	Fair Value
Short-term investments and cash equivalents	\$750	\$750	\$655	\$655
Fixed maturities:				
Corporate securities	13,814	14,092	13,903	13,997
Commercial mortgage-backed securities	1,993	2,021	2,032	2,052
Residential mortgage-backed securities(1)	1,048	1,056	1,142	1,150
Asset-backed securities(2)	1,259	1,284	1,333	1,349
Foreign government bonds	994	1,008	915	926
U.S. government authorities and agencies and obligations of U.S. states	343	392	330	376
Total fixed maturities	19,451	19,853	19,655	19,850
Equity securities	1,210	1,470	1,097	1,335
Total trading account assets supporting insurance liabilities	\$21,411	\$22,073	\$21,407	\$21,840

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

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

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within “Other income,” was \$183 million and \$136 million during the three months ended June 30, 2017 and 2016, respectively, and \$229 million and \$375 million during the six months ended June 30, 2017 and 2016, respectively.

Other Trading Account Assets

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

	June 30, 2017		December 31, 2016	
	Amortized Cost or Cost (in millions)	Fair Value	Amortized Cost or Cost	Fair Value
Short-term investments and cash equivalents	\$26	\$ 26	\$ 26	\$ 26
Fixed maturities	3,893	3,815	3,634	3,453
Equity securities	957	1,085	985	1,056
Other	5	5	4	5

Subtotal

\$4,881 4,931