PRUDENTIAL FINANCIAL INC
Form 10-Q
May 03, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey	**22-3703799**
(State or Other Jurisdiction of	**(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 x No ¨

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

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

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

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

As of April 30, 2013, 464 million shares of the registrant s Common Stock (par value $0.01) were outstanding. In addition, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

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

Table of Contents

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

PART I - FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

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

	March 31, 2013	December 31, 2012
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2013-$273,678; 2012-$277,654)(1)	$ 300,382	$ 301,336
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2013-$4,186; 2012-$4,511)(1)	3,878	4,268
Trading account assets supporting insurance liabilities, at fair value(1)	20,890	20,590
Other trading account assets, at fair value	6,862	6,328
Equity securities, available-for-sale, at fair value (cost: 2013-$6,613; 2012-$6,759)(1)	8,918	8,277
Commercial mortgage and other loans (includes $726 and $162 measured at fair value under the fair value option at March 31, 2013 and December 31, 2012, respectively)(1)	38,458	36,733
Policy loans	11,938	11,575
Other long-term investments (includes $487 and $465 measured at fair value under the fair value option at March 31, 2013 and December 31, 2012, respectively)(1)	9,863	10,028
Short-term investments(1)	6,288	6,447
Total investments	407,477	405,582
Cash and cash equivalents(1)	14,477	18,100
Accrued investment income(1)	3,143	3,127
Deferred policy acquisition costs	14,374	14,100
Value of business acquired	4,167	3,248
Other assets(1)	14,151	11,887
Separate account assets (1)	266,308	253,254
TOTAL ASSETS	$ 724,097	$ 709,298
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 210,918	$ 216,050
Policyholders account balances	138,316	134,413
Policyholders dividends	7,452	7,507
Securities sold under agreements to repurchase	6,702	5,818
Cash collateral for loaned securities	3,390	3,941
Income taxes	8,039	8,551
Short-term debt	2,228	2,484
Long-term debt	25,488	24,729

Other liabilities	12,694	11,683
Notes issued by consolidated variable interest entities (includes $1,768 and $1,406 measured at fair value under the fair value option at March 31, 2013 and December 31, 2012, respectively)(1)	1,896	1,577
Separate account liabilities(1)	266,308	253,254
Total liabilities	683,431	670,007
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,307 and 660,111,307 shares issued at March 31, 2013 and December 31, 2012, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively)	0	0
Additional paid-in capital	24,354	24,380
Common Stock held in treasury, at cost (194,777,322 and 197,077,940 shares at March 31, 2013 and December 31, 2012, respectively)	(12,018)	(12,163)
Accumulated other comprehensive income (loss)	12,418	10,214
Retained earnings	15,203	16,138
Total Prudential Financial, Inc. equity	39,963	38,575
Noncontrolling interests	703	716
Total equity	40,666	39,291
TOTAL LIABILITIES AND EQUITY	$ 724,097	$ 709,298

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

See Notes to Unaudited Interim Consolidated Financial Statements

1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three Months Ended March 31, 2013 and 2012 (in millions, except per share amounts)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
REVENUES		
Premiums	$ 7,084	$ 6,773
Policy charges and fee income	1,356	1,049
Net investment income	3,638	3,320
Asset management fees and other income	(1,170)	(135)
Realized investment gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(308)	(573)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	238	461
Other realized investment gains (losses), net	(653)	(1,272)
Total realized investment gains (losses), net	(723)	(1,384)
Total revenues	10,185	9,623
BENEFITS AND EXPENSES		
Policyholders benefits	7,219	6,443
Interest credited to policyholders account balances	1,050	966
Dividends to policyholders	560	442
Amortization of deferred policy acquisition costs	218	(225)
General and administrative expenses	2,683	2,760
Total benefits and expenses	11,730	10,386
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(1,545)	(763)
Income tax expense (benefit)	(831)	179
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(714)	(942)
Equity in earnings of operating joint ventures, net of taxes	49	7
INCOME (LOSS) FROM CONTINUING OPERATIONS	(665)	(935)
Income from discontinued operations, net of taxes	1	7
NET INCOME (LOSS)	(664)	(928)
Less: Income attributable to noncontrolling interests	42	11
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ (706)	$ (939)
EARNINGS PER SHARE (See Note 8)		
Financial Services Businesses		

Basic earnings per share-Common Stock:		
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.55)	$ (2.04)
Income from discontinued operations, net of taxes	0.00	0.01
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.55)	$ (2.03)
Diluted earnings per share-Common Stock:		
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.55)	$ (2.04)
Income from discontinued operations, net of taxes	0.00	0.01
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.55)	$ (2.03)
Dividends declared per share of Common Stock	$ 0.40	
Closed Block Business		
Basic and Diluted earnings per share-Class B Stock:		
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 5.50	$ 6.50
Income from discontinued operations, net of taxes	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 5.50	$ 6.50
Dividends declared per share of Class B Stock	$ 2.41	

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income

Three Months Ended March 31, 2013 and 2012 (in millions)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
NET INCOME (LOSS)	$ (664)	$ (928)
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments:		
Foreign currency translation adjustments for the period	(902)	(179)
Reclassification adjustment for amounts included in net income	1	0
Total	(901)	(179)
Net unrealized investment gains:		
Unrealized investment gains for the period	4,452	2,891
Reclassification adjustment for (gains) losses included in net income	(174)	93
Total	4,278	2,984
Defined benefit pension and postretirement unrecognized net periodic benefit:		
Impact of foreign currency changes and other	19	15
Amortization included in net income	31	24
Total	50	39
Other comprehensive income, before tax	3,427	2,844
Less: Income tax expense (benefit) related to:		
Foreign currency translation adjustments	(269)	(34)
Net unrealized investment gains	1,474	1,083
Defined benefit pension and postretirement unrecognized net periodic benefit	18	1
Total	1,223	1,050
Other comprehensive income, net of taxes	2,204	1,794
Comprehensive income	1,540	866
Less: Comprehensive income attributable to noncontrolling interests	42	7
Comprehensive income attributable to Prudential Financial, Inc.	$ 1,498	$ 859

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

Three Months Ended March 31, 2013 and 2012 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2012	$ 6	$ 24,380	$ 16,138	$ (12,163)	$ 10,214	$ 38,575	$ 716	$ 39,291
Contributions from noncontrolling interests						0	1	1
Distributions to noncontrolling interests						0	(56)	(56)
Consolidations/deconsolidations								
Stock-based compensation programs		(26)	(36)	145		83		83
Dividends declared on Common Stock			(188)			(188)		(188)
Dividends declared on Class B Stock			(5)			(5)		(5)
Comprehensive income:								
Net income			(706)			(706)	42	(664)
Other comprehensive income (loss), net of tax					2,204	2,204	0	2,204
Total comprehensive income (loss)						1,498	42	1,540
Balance, March 31, 2013	$ 6	$ 24,354	$ 15,203	$ (12,018)	$ 12,418	$ 39,963	$ 703	$ 40,666

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2011	$ 6	$ 24,293	$ 16,629	$ (11,920)	$ 5,245	$ 34,253	$ 588	$ 34,841
Common Stock acquired				(250)		(250)		(250)
Contributions from noncontrolling interests						0	1	1
Stock-based compensation programs		(5)	(150)	253		98		98
Comprehensive income:								
Net income			(939)			(939)	11	(928)
Other comprehensive income (loss), net of tax					1,798	1,798	(4)	1,794
Total comprehensive income (loss)						859	7	866
Balance, March 31, 2012	$ 6	$ 24,288	$ 15,540	$ (11,917)	$ 7,043	$ 34,960	$ 596	$ 35,556

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

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Three Months Ended March 31, 2013 and 2012 (in millions)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (664)	$ (928)
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	723	1,384
Policy charges and fee income	(514)	(326)
Interest credited to policyholders account balances	1,050	966
Depreciation and amortization	109	105
Gains on trading account assets supporting insurance liabilities, net	(93)	(234)
Change in:		
Deferred policy acquisition costs	(645)	(1,047)
Future policy benefits and other insurance liabilities	2,545	2,689
Other trading account assets	(10)	(48)
Income taxes	(1,653)	281
Other, net	(661)	(2,075)
Cash flows from operating activities	187	767
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	11,805	10,967
Fixed maturities, held-to-maturity	125	123
Trading account assets supporting insurance liabilities and other trading account assets	5,658	4,512
Equity securities, available-for-sale	1,003	1,088
Commercial mortgage and other loans	1,287	784
Policy loans	572	577
Other long-term investments	499	554
Short-term investments	9,311	7,399
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(13,564)	(13,573)
Fixed maturities, held-to-maturity	(14)	0
Trading account assets supporting insurance liabilities and other trading account assets	(6,498)	(4,360)
Equity securities, available-for-sale	(985)	(941)
Commercial mortgage and other loans	(2,008)	(1,380)
Policy loans	(441)	(451)
Other long-term investments	(633)	(277)
Short-term investments	(9,053)	(7,262)
Acquisition of business, net of cash acquired	(488)	0
Other, net	(228)	16
Cash flows used in investing activities	(3,652)	(2,224)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	5,881	5,404
Policyholders account withdrawals	(6,438)	(6,074)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	344	970
Cash dividends paid on Common Stock	(206)	(44)
Cash dividends paid on Class B Stock	(5)	0
Net change in financing arrangements (maturities 90 days or less)	591	145
Common Stock acquired	0	(225)
Common Stock reissued for exercise of stock options	46	63
Proceeds from the issuance of debt (maturities longer than 90 days)	1,233	1,130

Repayments of debt (maturities longer than 90 days)	(1,240)	(191)
Excess tax benefits from share-based payment arrangements	8	44
Change in bank deposits	0	(49)
Other, net	135	346
Cash flows from financing activities	349	1,519
Effect of foreign exchange rate changes on cash balances	(507)	(112)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,623)	(50)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,100	14,251
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 14,477	$ 14,201
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	$ 101	$ 205

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

Basis of Presentation

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

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

The Company s Gibraltar Life Insurance Company, Ltd. (Gibraltar Life) consolidated operations, use a November 30 fiscal year end for purposes of inclusion in the Company s Consolidated Financial Statements. Therefore, the Unaudited Interim Consolidated Financial Statements as of March 31, 2013, include the assets and liabilities of Gibraltar Life as of February 28, 2013 and the results of operations for Gibraltar Life for the three months ended February 28, 2013.

Use of Estimates

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

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

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Other trading account assets, at fair value consist primarily of fixed maturities, equity securities, including certain perpetual preferred stock, and certain derivatives, including those used by the Company in its capacity as a broker-dealer and derivative hedging positions, used in a non-broker-dealer capacity primarily to hedge the risks related to certain products. These instruments are carried at fair value. Realized and unrealized gains and losses on these investments and on derivatives used by the Company in its capacity as a broker-dealer are reported in Asset management fees and other income and, for those related to the Company s global commodities group, in Income from discontinued operations, net of taxes. Interest and dividend income from these investments is reported in Net investment income and, for those related to the Company s global commodities group, in Income from discontinued operations, net of taxes.

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

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

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

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

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

The Company discontinues accruing interest on loans after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability. When the Company

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

9

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

10

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

11

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Derivative Financial Instruments

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

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

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

12

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in Realized investment gains (losses), net. Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized currently in Realized investment gains (losses), net. Gains and losses that were in AOCI pursuant to the hedge of a forecasted transaction are recognized immediately in Realized investment gains (losses), net.

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

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

Adoption of New Accounting Pronouncements

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Future Adoption of New Accounting Pronouncements

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

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of The Hartford s Individual Life Insurance Business

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

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

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

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc. (AIG) of AIG Star Life Insurance Co., Ltd. (Star), AIG Edison Life Insurance Company (Edison), AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was $4,709 million, comprised of $4,213 million in cash and $496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. The acquisition of these businesses included the purchase by the Company of all of the shares of these entities, which became indirect wholly-owned subsidiaries of the Company. All acquired entities were Japanese corporations and their businesses were in Japan, increasing the Company s scale in the Japanese insurance market. On January 1, 2012, Star and Edison were merged into Gibraltar Life.

Sale of Wealth Management Services

In April 2013, the Company signed a definitive agreement to sell its wealth management services unit to Envestnet Inc. The transaction, which will not have a material impact to the Company s financial results, is expected to close in 2013, subject to customary closing conditions.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Discontinued Operations

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(in millions)	
Real estate investments sold or held for sale(1)	$ 0	$ 10
Global commodities business	2	0
Income from discontinued operations before income taxes	2	10
Income tax expense	1	3
Income from discontinued operations, net of taxes	$ 1	$ 7

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

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

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

	March 31, 2013	December 31, 2012
	(in millions)	
Total assets	$ 33	$ 13
Total liabilities	$ 0	$ 0

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 13,102	$ 3,296	$ 44	$ 16,354	$ 0
Obligations of U.S. states and their political subdivisions	3,381	533	9	3,905	0
Foreign government bonds	76,284	8,611	62	84,833	1
Corporate securities	149,825	15,252	1,744	163,333	(5)
Asset-backed securities(1)	11,263	257	479	11,041	(880)
Commercial mortgage-backed securities	11,659	651	24	12,286	5
Residential mortgage-backed securities(2)	8,164	489	23	8,630	(11)
Total fixed maturities, available-for-sale	$ 273,678	$ 29,089	$ 2,385	$ 300,382	$ (890)
Equity securities, available-for-sale	$ 6,613	$ 2,321	$ 16	$ 8,918	

16

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, held-to-maturity					
Foreign government bonds	$ 1,050	$ 172	$ 0	$ 1,222	$ 0
Corporate securities(4)	987	39	46	980	0
Asset-backed securities(1)	864	59	0	923	0
Commercial mortgage-backed securities	278	38	0	316	0
Residential mortgage-backed securities(2)	699	46	0	745	0
Total fixed maturities, held-to-maturity(4)	$ 3,878	$ 354	$ 46	$ 4,186	$ 0

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings. Amount excludes $913 million of net unrealized gains on impaired available-for-sale securities and less than $1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(4) Excludes notes with amortized cost of $1,500 million (fair value, $1,644 million) which have been offset with the associated payables under a netting agreement.

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

The amortized cost and fair value of fixed maturities by contractual maturities at March 31, 2013, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value (in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 15,725	$ 16,341	$ 0	$ 0
Due after one year through five years	48,878	53,141	90	91
Due after five years through ten years	56,682	63,286	329	343
Due after ten years(1)	121,307	135,657	1,618	1,768
Asset-backed securities	11,263	11,041	864	923
Commercial mortgage-backed securities	11,659	12,286	278	316
Residential mortgage-backed securities	8,164	8,630	699	745
Total	$ 273,678	$ 300,382	$ 3,878	$ 4,186

(1) Excludes notes with amortized cost of $1,500 million (fair value, $1,644 million) which have been offset with the associated payables under a netting agreement.

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended March 31, 2013	2012
	(in millions)	
Fixed maturities, available-for-sale		
Proceeds from sales	$ 6,495	$ 5,663
Proceeds from maturities/repayments	5,739	4,989
Gross investment gains from sales, prepayments, and maturities	229	127
Gross investment losses from sales and maturities	(106)	(78)
Fixed maturities, held-to-maturity		
Gross investment gains from prepayments	$ 0	$ 0
Proceeds from maturities/repayments	125	123
Equity securities, available-for-sale		
Proceeds from sales	$ 1,048	$ 1,082
Gross investment gains from sales	107	122
Gross investment losses from sales	(23)	(86)
Fixed maturity and equity security impairments		
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (70)	$ (112)
Writedowns for impairments on equity securities	(7)	(49)

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended March 31, 2013	2012
	(in millions)	
Balance, beginning of period	$ 1,166	$ 1,475
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(97)	(18)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	0	(59)
Credit loss impairment recognized in the current period on securities not previously impaired	1	24
Additional credit loss impairments recognized in the current period on securities previously impaired	12	37
Increases due to the passage of time on previously recorded credit losses	12	13
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(5)	(7)
Balance, end of period	$ 1,089	$ 1,465

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

Trading Account Assets Supporting Insurance Liabilities

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

	March 31, 2013 Amortized Cost	March 31, 2013 Fair Value	December 31, 2012 Amortized Cost	December 31, 2012 Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 1,126	$ 1,126	$ 938	$ 938
Fixed maturities:				
Corporate securities	11,222	12,168	11,076	12,107
Commercial mortgage-backed securities	2,331	2,441	2,096	2,229
Residential mortgage-backed securities(1)	1,884	1,932	1,965	2,026
Asset-backed securities(2)	1,048	1,047	1,179	1,116
Foreign government bonds	631	668	683	708
U.S. government authorities and agencies and obligations of U.S. states	346	410	369	426

Total fixed maturities	17,462	18,666	17,368	18,612
Equity securities	857	1,098	943	1,040
Total trading account assets supporting insurance liabilities	$ 19,445	$ 20,890	$ 19,249	$ 20,590

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income , was $104 million and $263 million during the three months ended March 31, 2013 and 2012, respectively.

Other Trading Account Assets

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

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Short-term investments and cash equivalents	$ 58	$ 59	$ 42	$ 42
Fixed maturities	2,614	2,595	2,196	2,132
Equity securities	1,236	1,338	1,363	1,437
Other	3	6	3	6
Subtotal	3,911	3,998	3,604	3,617
Derivative instruments		2,864		2,711
Total other trading account assets	$ 3,911	$ 6,862	$ 3,604	$ 6,328

The net change in unrealized gains (losses) from other trading account assets, excluding derivatives instruments, still held at period end, recorded within Asset management fees and other income , was $74 million and $137 million during the three months ended March 31, 2013 and 2012, respectively.

Concentrations of Financial Instruments

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

As of both March 31, 2013 and December 31, 2012, the Company s exposure to concentrations of credit risk of single issuers greater than 10% of the Company s stockholders equity included securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	$ 61,948	$ 67,907	$ 66,590	$ 70,997
Fixed maturities, held-to-maturity	1,026	1,196	1,118	1,223
Trading account assets supporting insurance liabilities	488	510	513	524
Other trading account assets	35	35	39	40
Short-term investments	0	0	0	0
Cash equivalents	574	574	1,637	1,637
Total	$ 64,071	$ 70,222	$ 69,897	$ 74,421

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	$ 5,754	$ 6,963	$ 5,837	$ 6,883
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	62	63	62	63
Other trading account assets	3	3	2	2
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$ 5,819	$ 7,029	$ 5,901	$ 6,948

Commercial Mortgage and Other Loans

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

	March 31, 2013		December 31, 2012	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial and agricultural mortgage loans by property type:				
Office	$ 7,456	20.6%	$ 6,890	20.1%
Retail	8,067	22.3	8,190	23.9
Apartments/Multi-Family	6,332	17.5	5,235	15.3
Industrial	7,754	21.4	7,636	22.3
Hospitality	1,496	4.2	1,322	3.9
Other	2,933	8.1	2,841	8.3
Total commercial mortgage loans	34,038	94.1	32,114	93.8
Agricultural property loans	2,147	5.9	2,122	6.2
Total commercial and agricultural mortgage loans by property type	36,185	100.0%	34,236	100.0%
Valuation allowance	(226)		(229)	
Total net commercial and agricultural mortgage loans by property type	35,959		34,007	
Other loans				
Uncollateralized loans	1,717		1,836	
Residential property loans	690		790	
Other collateralized loans	121		140	

Total other loans	2,528	2,766
Valuation allowance	(29)	(40)
Total net other loans	2,499	2,726
Total commercial mortgage and other loans(1)	$ 38,458	$ 36,733

(1) Includes loans held at fair value.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (28%), New York (10%), and Texas (8%) at March 31, 2013.

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

	March 31, 2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for losses, beginning of year	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269
Addition to / (release of) allowance of losses	12	0	(1)	(8)	1	4
Charge-offs, net of recoveries	(15)	0	0	0	0	(15)
Change in foreign exchange	0	0	(1)	0	(2)	(3)
Total ending balance	$ 206	$ 20	$ 9	$ 4	$ 16	$ 255

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	March 31, 2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 39	$ 12	$ 0	$ 4	$ 0	$ 55
Ending balance: collectively evaluated for impairment	167	7	9	0	17	200
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 206	$ 19	$ 9	$ 4	$ 17	$ 255
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 1,454	$ 52	$ 0	$ 82	$ 3	$ 1,591
Ending balance gross of reserves: collectively evaluated for impairment	32,584	2,095	690	39	1,714	37,122
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 34,038	$ 2,147	$ 690	$ 121	$ 1,717	$ 38,713

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	March 31, 2013				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
			(in millions)		
With no related allowance recorded:					
Commercial mortgage loans	$ 1	$ 1	$ 0	$ 14	$ 1
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total with no related allowance	$ 1	$ 3	$ 0	$ 14	$ 1
With an allowance recorded:					
Commercial mortgage loans	$ 152	$ 153	$ 39	$ 169	$ 2
Agricultural property loans	18	17	12	17	0
Residential property loans	0	0	0	0	0
Other collateralized loans	7	7	4	12	3
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 177	$ 177	$ 55	$ 198	$ 5
Total:					
Commercial mortgage loans	$ 153	$ 154	$ 39	$ 183	$ 3
Agricultural property loans	18	17	12	17	0
Residential property loans	0	0	0	0	0
Other collateralized loans	7	7	4	12	3
Uncollateralized loans	0	2	0	0	0
Total	$ 178	$ 180	$ 55	$ 212	$ 6

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

26

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2012				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
			(in millions)		
With no related allowance recorded:					
Commercial mortgage loans(4)	$ 27	$ 166	$ 0	$ 54	$ 4
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	4	0
Total with no related allowance	$ 27	$ 168	$ 0	$ 58	$ 4
With an allowance recorded:					
Commercial mortgage loans	$ 185	$ 185	$ 50	$ 351	$ 8
Agricultural property loans	17	17	12	16	0
Residential property loans	0	0	0	0	0
Other collateralized loans	17	17	11	19	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 219	$ 219	$ 73	$ 386	$ 8
Total:					
Commercial mortgage loans(4)	$ 212	$ 351	$ 50	$ 405	$ 12
Agricultural property loans	17	17	12	16	0
Residential property loans	0	0	0	0	0
Other collateralized loans	17	17	11	19	0
Uncollateralized loans	0	2	0	4	0
Total	$ 246	$ 387	$ 73	$ 444	$ 12

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.
(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.
(3) The interest income recognized is for the year-to-date of income regardless of when the impairments occurred.
(4) Includes the impact of loans acquired from the Star Business for which the balance sheet carrying value had been previously written down.

The net carrying value of commercial and other loans held for sale by the Company as of March 31, 2013 and December 31, 2012, was $678 million and $114 million, respectively. In all these transactions, the Company pre-arranges that it will sell the loan to an investor. As of both March 31, 2013 and December 31, 2012, all of the Company s commercial and other loans held for sale were collateralized, with collateral primarily consisting of office buildings, retail properties, apartment complexes and industrial buildings.

27

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables set forth the credit quality indicators as of March 31, 2013, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio March 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	$ 15,804	$ 670	$ 148	$ 16,622
60%-69.99%	9,919	666	230	10,815
70%-79.99%	4,463	694	181	5,338
Greater than 80%	323	455	485	1,263
Total commercial mortgage loans	$ 30,509	$ 2,485	$ 1,044	$ 34,038

Agricultural property loans

	Debt Service Coverage Ratio March 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	$ 1,687	$ 159	$ 44	$ 1,890
60%-69.99%	210	0	0	210
70%-79.99%	0	0	0	0
Greater than 80%	0	0	47	47
Total agricultural property loans	$ 1,897	$ 159	$ 91	$ 2,147

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio March 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total

		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 17,491	$ 829	$ 192	$ 18,512
60%-69.99%	10,129	666	230	11,025
70%-79.99%	4,463	694	181	5,338
Greater than 80%	323	455	532	1,310
Total commercial and agricultural mortgage loans	$ 32,406	$ 2,644	$ 1,135	$ 36,185

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Commercial mortgage loans

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

Agricultural property loans

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

Total commercial and agricultural mortgage loans

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	March 31, 2013							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 33,909	$ 13	$ 0	$ 0	$ 116	$ 129	$ 34,038	$ 240
Agricultural property loans	2,099	0	0	0	48	48	2,147	49
Residential property loans	662	11	5	0	12	28	690	12
Other collateralized loans	120	0	0	0	1	1	121	7
Uncollateralized loans	1,717	0	0	0	0	0	1,717	3
Total	$ 38,507	$ 24	$ 5	$ 0	$ 177	$ 206	$ 38,713	$ 311

	December 31, 2012							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 31,943	$ 43	$ 91	$ 0	$ 37	$ 171	$ 32,114	$ 190
Agricultural property loans	2,077	0	0	0	45	45	2,122	49
Residential property loans	759	12	5	0	14	31	790	14
Other collateralized loans	139	0	0	0	1	1	140	17
Uncollateralized loans	1,836	0	0	0	0	0	1,836	3
Total	$ 36,754	$ 55	$ 96	$ 0	$ 97	$ 248	$ 37,002	$ 273

See Note 2 for further discussion regarding nonaccrual status loans.

For the three months ended March 31, 2013, there were $718 million of commercial mortgage and other loans acquired, other than those through direct origination. Additionally, there were no commercial mortgage and other loans sold, other than those classified as held-for-sale. For the three months ended March 31, 2012, there were no new commercial mortgage and other loans acquired, other than those through direct origination.

The Company s commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of March 31, 2013 and December 31, 2012, the Company had committed to fund $10 million and $6 million, respectively, to borrowers that have been involved in a troubled debt restructuring. During the three months ended March 31, 2013 and 2012, respectively, there were no new troubled debt restructurings related to commercial mortgage loans, and no payment defaults on commercial mortgage and other loans that

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

were modified as a troubled debt restructuring within the 12 months preceding each respective period. See Note 2 for additional information relating to the accounting for troubled debt restructurings.

Net Investment Income

Net investment income for the three months ended March 31, 2013 and 2012, was from the following sources:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Fixed maturities, available-for-sale	$ 2,651	$ 2,401
Fixed maturities, held-to-maturity	31	34
Equity securities, available-for-sale	78	76
Trading account assets	238	231
Commercial mortgage and other loans	490	487
Policy loans	148	148
Short-term investments and cash equivalents	10	12
Other long-term investments	133	40
Gross investment income	3,779	3,429
Less: investment expenses	(141)	(109)
Net investment income	$ 3,638	$ 3,320

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three months ended March 31, 2013 and 2012, were from the following sources:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Fixed maturities	$ 53	$ (63)
Equity securities	77	(13)
Commercial mortgage and other loans	13	11

Investment real estate	0	3
Joint ventures and limited partnerships	(1)	(4)
Derivatives(1)	(870)	(1,319)
Other	5	1
Realized investment gains (losses), net	$ (723)	$ (1,384)

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Unrealized Gains (Losses) on Investments by Asset Class

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

	March 31, 2013	December 31, 2012
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ 23	$ (194)
Fixed maturity securities, available-for-sale all other	26,681	23,876
Equity securities, available-for-sale	2,305	1,518
Derivatives designated as cash flow hedges(1)	(79)	(257)
Other investments(2)	(36)	14
Net unrealized gains (losses) on investments	$ 28,894	$ 24,957

(1) See Note 14 for more information on cash flow hedges.
(2) As of March 31, 2013, includes $44 million of net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Also includes net unrealized gains on certain joint ventures that are strategic in nature and are included in Other assets.

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

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

	March 31, 2013					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 1,375	$ 44	$ 3	$ 0	$ 1,378	$ 44
Obligations of U.S. states and their political subdivisions	590	9	0	0	590	9
Foreign government bonds	2,315	55	97	6	2,412	61
Corporate securities	29,738	1,237	5,446	553	35,184	1,790
Commercial mortgage-backed securities	1,476	19	140	5	1,616	24

Asset-backed securities	495	2	3,092	478	3,587	480
Residential mortgage-backed securities	1,130	8	216	15	1,346	23
Total	$ 37,119	$ 1,374	$ 8,994	$ 1,057	$ 46,113	$ 2,431
Equity securities, available-for-sale	$ 327	$ 16	$ 2	$ 0	$ 329	$ 16

(1) Includes $439 million of fair value and $46 million of gross unrealized losses at March 31, 2013, on securities classified as held-to-maturity, a portion of which are not reflected in AOCI.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2012					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 2,191	$ 33	$ 42	$ 2	$ 2,233	$ 35
Obligations of U.S. states and their political subdivisions	343	5	5	0	348	5
Foreign government bonds	5,426	55	167	11	5,593	66
Corporate securities	25,051	599	7,961	1,057	33,012	1,656
Commercial mortgage-backed securities	525	3	185	14	710	17
Asset-backed securities	911	11	3,545	720	4,456	731
Residential mortgage-backed securities	773	4	259	29	1,032	33
Total	$ 35,220	$ 710	$ 12,164	$ 1,833	$ 47,384	$ 2,543
Equity securities, available-for-sale	$ 961	$ 55	$ 0	$ 0	$ 961	$ 55

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

The gross unrealized losses on fixed maturity securities at March 31, 2013 and December 31, 2012, are composed of $1,997 million and $1,866 million related to high or highest quality securities based on NAIC or equivalent rating and $434 million and $677 million, related to other than high or highest quality securities based on NAIC or equivalent rating, respectively. At March 31, 2013, the $1,057 million of gross unrealized losses of twelve months or more were concentrated in the finance, utility, and consumer non-cyclical sectors of the Company s corporate securities. At December 31, 2012, the $1,833 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the finance and consumer cyclical sectors of the Company s corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at March 31, 2013 or December 31, 2012. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to foreign currency exchange rate movements, general credit spread widening and increased liquidity discounts. At March 31, 2013, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

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

5. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special purpose entities and other entities that are deemed to be variable interest entities (VIEs). A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

ability to control activities of the entity, the obligation to absorb the entity s expected losses and the right to receive the entity s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

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

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

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

The Company is the investment manager of certain asset-backed investment vehicles (commonly referred to as collateralized debt obligations, or CDOs) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures which the Company s asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company sells or syndicates investments through these vehicles, principally as part of the strategic investing activity of the Company s asset management businesses. Additionally, the Company may invest in securities issued by these vehicles. CDOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company analyzes these relationships to determine whether it has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant and thus is the primary beneficiary. This analysis includes a review of (1) the Company s rights and responsibilities as investment manager, (2) fees received by the Company and (3) other interests (if any) held by the Company. The Company is not required to provide, and has not provided, material financial or other support to any VIE for which it is the investment manager.

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

34

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	March 31, 2013	December 31, 2012
	(in millions)	
Fixed maturities, available-for-sale	$ 88	$ 87
Other trading account assets	1,867	1,409
Commercial mortgage and other loans	82	127
Other long-term investments	0	22
Cash and cash equivalents	511	9
Accrued investment income	6	0
Other assets	70	1
Total assets of consolidated VIEs	$ 2,624	$ 1,655
Notes issued by consolidated VIEs	$ 1,896	$ 1,577
Other liabilities	402	0
Total liabilities of consolidated VIEs	$ 2,298	$ 1,577

As included in the table above, notes issued by consolidated VIEs are reported on the Consolidated Statements of Financial Position within Notes issued by consolidated VIEs. Recourse is limited to the assets of the respective VIE and does not extend to the general credit of Prudential Financial. As of March 31, 2013, the maturities of these obligations were over five years.

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

Other Consolidated Variable Interest Entities

The Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities. Included among these structured investments are structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company s involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial or other support that was not contractually required to these VIEs. The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs for which the Company is not the investment manager are reported. These liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of each consolidated VIE have recourse only to the assets of that VIE.

	March 31, 2013	December 31, 2012

	(in millions)	
Fixed maturities, available-for-sale	$ 125	$ 115
Fixed maturities, held-to-maturity	974	1,059
Trading account assets supporting insurance liabilities	11	8
Other long-term investments	71	53
Accrued investment income	4	3
Total assets of consolidated VIEs	$ 1,185	$ 1,238
Other liabilities	$ 1	$ 1
Total liabilities of consolidated VIEs	$ 1	$ 1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust s medium-term note liability of $1,774 million and $1,780 million at March 31, 2013 and December 31, 2012, respectively, is classified within Policyholders account balances. Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support to the trust that was not contractually required.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager, including certain CDOs and other investment structures, as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company s maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was $614 million and $602 million at March 31, 2013 and December 31, 2012. These investments are reflected in Fixed maturities, available-for-sale, Other trading account assets, at fair value and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was $9,545 million and $9,240 million as of March 31, 2013 and December 31, 2012, respectively. The Company has provided a guarantee to an unconsolidated VIE under which the Company is exposed to potential losses in the amount of $60 million and $64 million as of March 31, 2013 and December 31, 2012, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company s maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as Other long-term investments and its maximum exposure to loss associated with these entities was $6,691 million and $6,873 million as of March 31, 2013 and December 31, 2012, respectively.

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE s portfolio of assets and related investment activity. The market value of these VIEs was approximately $2.1 billion as of both March 31, 2013 and December 31, 2012 and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available-for-sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. The Company s variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company s maximum exposure to loss from these interests was $318 million and $314 million at March 31, 2013 and December 31, 2012, respectively, which includes the fair value of the embedded derivatives.

6. CLOSED BLOCK

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings.

As of March 31, 2013 and December 31, 2012, the Company recognized a policyholder dividend obligation of $920 million and $885 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $5,459 million and $5,478 million at March 31, 2013 and December 31, 2012, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI. See the table below for changes in the components of the policyholder dividend obligation for the three months ended March 31, 2013.

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

	March 31, 2013	December 31, 2012
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 50,628	$ 50,839
Policyholders dividends payable	920	887
Policyholders dividend obligation	6,379	6,363
Policyholders account balances	5,403	5,426
Other Closed Block liabilities	4,299	3,366
Total Closed Block Liabilities	67,629	66,881
Closed Block Assets		
Fixed maturities, available-for-sale, at fair value	41,817	41,980
Other trading account assets, at fair value	226	224
Equity securities, available-for-sale, at fair value	3,603	3,225
Commercial mortgage and other loans	8,791	8,747
Policy loans	5,077	5,120
Other long-term investments	2,256	2,094
Short-term investments	1,502	1,194
Total investments	63,272	62,584
Cash and cash equivalents	403	511
Accrued investment income	572	550
Other Closed Block assets	419	262
Total Closed Block Assets	64,666	63,907

Excess of reported Closed Block Liabilities over Closed Block Assets	2,963	2,974
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	5,454	5,467
Allocated to policyholder dividend obligation	(5,459)	(5,478)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 2,958	$ 2,963

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Information regarding the policyholder dividend obligation is as follows:

	Three Months Ended March 31, 2013 (in millions)
Balance, January 1	$ 6,363
Impact from earnings allocable to policyholder dividend obligation	35
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(19)
Balance, March 31	$ 6,379

Closed Block revenues and benefits and expenses for the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Revenues		
Premiums	$ 647	$ 671
Net investment income	707	733
Realized investment gains (losses), net	96	(9)
Other income	10	20
Total Closed Block revenues	1,460	1,415
Benefits and Expenses		
Policyholders benefits	815	859
Interest credited to policyholders account balances	34	34
Dividends to policyholders	503	404
General and administrative expenses	119	127
Total Closed Block benefits and expenses	1,471	1,424
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	(11)	(9)
Income tax expense (benefit)	(16)	(12)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	5	3
Income from discontinued operations, net of taxes	0	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ 5	$ 3

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

7. EQUITY

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

	Common Stock Issued	Common Stock Held In Treasury	Common Stock Outstanding	Class B Stock Issued and Outstanding
	(in millions)			
Balance, December 31, 2012	660.1	197.1	463.0	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	0.0	0.0	0.0
Stock-based compensation programs(1)	0.0	(2.3)	2.3	0.0
Balance, March 31, 2013	660.1	194.8	465.3	2.0

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

In June 2012, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock through June 2013. As of March 31, 2013, 2.7 million shares of the Company s common stock were repurchased under this authorization at a total cost of $150 million.

The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Exchange Act. Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including increased capital needs of the Company due to opportunities for growth and acquisitions, as well as the effect of adverse market conditions on the segments.

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the three months ended March 31, 2013 and 2012 are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
		(in millions)		
Balance, December 31, 2012	$ 928	$ 11,402	$ (2,116)	$ 10,214
Change in other comprehensive income before reclassifications	(902)	4,452	19	3,569
Amounts reclassified from AOCI	1	(174)	31	(142)
Income tax benefit (expense)	269	(1,474)	(18)	(1,223)
Balance, March 31, 2013	$ 296	$ 14,206	$ (2,084)	$ 12,418

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2011	$ 1,107	$ 5,805	$ (1,667)	$ 5,245
Change in component during period(2)	(141)	1,901	38	1,798
Balance, March 31, 2012	$ 966	$ 7,706	$ (1,629)	$ 7,043

(1) Includes cash flow hedges of $(79) million and $(257) million as of March 31, 2013 and December 31, 2012, respectively, and $(126) million and $(55) million as of March 31, 2012 and December 31, 2011, respectively.
(2) Net of taxes.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three months ended March 31, 2013 (in millions)	Affected line item in Consolidated Statements of Operations
Amounts reclassified from AOCI (1)(2):		
Foreign currency translation adjustment:		
Foreign currency translation adjustment	$ (1)	Realized investment gains (losses), net
Foreign currency translation adjustment	0	Other income
Total foreign currency translation adjustment	(1)	
Net unrealized investment gains (losses):		
Cash flow hedges Interest Rate	(4)	(3)
Cash flow hedges Currency/Interest rate	(18)	(3)
Net unrealized investment gains (losses) on available-for-sale securities	130	
Net unrealized investment gains (losses) all other	66	
Total net unrealized investment gains (losses)	174	(4)
Amortization of defined benefit pension items:		
Prior service cost	6	(5)
Actuarial gain (loss)	(37)	(5)

Transition obligation		0	(5)
Total amortization of defined benefit pension items		(31)	
Total reclassifications for the period	$	142	