

PRUDENTIAL FINANCIAL INC  
Form 10-Q  
November 04, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

OR

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

For the Transition Period from            to

Commission File Number 001-16707

# Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

**New Jersey**  
(State or Other Jurisdiction of

Incorporation or Organization)

**22-3703799**  
(I.R.S. Employer

Identification Number)

**751 Broad Street**

**Newark, New Jersey 07102**

**(973) 802-6000**

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  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

As of October 31, 2011, 470 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**

	<b>Page Number</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements:</u>	
<u>Unaudited Interim Consolidated Statements of Financial Position as of September 30, 2011 and December 31, 2010</u>	1
<u>Unaudited Interim Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>	2
<u>Unaudited Interim Consolidated Statements of Equity for the nine months ended September 30, 2011 and 2010</u>	3
<u>Unaudited Interim Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	4
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	5
<u>Unaudited Interim Supplemental Combining Financial Information:</u>	
<u>Unaudited Interim Supplemental Financial Statements of Financial Position as of September 30, 2011 and December 31, 2010</u>	129
<u>Unaudited Interim Supplemental Financial Statements of Operations for the three months ended September 30, 2011 and 2010</u>	130
<u>Unaudited Interim Supplemental Financial Statements of Operations for the nine months ended September 30, 2011 and 2010</u>	131
<u>Notes to Unaudited Interim Supplemental Combining Financial Information</u>	132
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	134
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	299
Item 4. <u>Controls and Procedures</u>	299
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	300
Item 1A. <u>Risk Factors</u>	300
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	301
Item 6. <u>Exhibits</u>	301
<b><u>SIGNATURES</u></b>	302

---

**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, 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 recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions, including risks associated with the acquisition of certain insurance operations in Japan; (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, 2010 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, before and after its demutualization on December 18, 2001. Prudential, the Company, we and our refer to our consolidated operations before and after demutualization.

**PART I - FINANCIAL INFORMATION****ITEM 1. Financial Statements****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Financial Position**

September 30, 2011 and December 31, 2010 (in millions, except share amounts)

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Fixed maturities, available for sale, at fair value (amortized cost: 2011-\$238,534; 2010- \$187,754)(1)	\$ 252,112	\$ 194,983
Fixed maturities, held to maturity, at amortized cost (fair value: 2011-\$5,484; 2010- \$5,477)(1)	5,195	5,226
Trading account assets supporting insurance liabilities, at fair value(1)	19,535	17,771
Other trading account assets, at fair value	6,562	4,225
Equity securities, available for sale, at fair value (cost: 2011-\$7,082; 2010- \$6,469)	7,462	7,741
Commercial mortgage and other loans (includes \$219 and \$364 measured at fair value under the fair value option at September 30, 2011 and December 31, 2010, respectively)(1)	34,401	31,831
Policy loans	11,483	10,667
Other long-term investments (includes \$338 and \$258 measured at fair value under the fair value option at September 30, 2011 and December 31, 2010, respectively)(1)	7,903	6,171
Short-term investments	7,907	5,297
<b>Total investments</b>	<b>352,560</b>	<b>283,912</b>
Cash and cash equivalents(1)	15,526	12,915
Accrued investment income(1)	2,820	2,377
Deferred policy acquisition costs	16,278	16,435
Other assets(1)	16,923	16,439
Separate account assets(1)	207,366	207,776
<b>TOTAL ASSETS</b>	<b>\$ 611,473</b>	<b>\$ 539,854</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Future policy benefits	\$ 169,391	\$ 133,874
Policyholders' account balances	134,560	106,441
Policyholders' dividends	5,420	3,378
Securities sold under agreements to repurchase	6,234	5,885
Cash collateral for loaned securities	3,189	2,171
Income taxes	8,319	6,353
Short-term debt	2,899	1,982
Long-term debt	23,920	23,653

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Other liabilities(1)	12,371	15,413
Separate account liabilities(1)	207,366	207,776
<b>Total liabilities</b>	<b>573,669</b>	<b>506,926</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)</b>		
<b>EQUITY</b>		
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; 660,110,939 and 660,110,810 shares issued at September 30, 2011 and December 31, 2010, respectively)	6	6
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively)	0	0
Additional paid-in capital	24,257	24,223
Common Stock held in treasury, at cost (188,213,961 and 176,312,047 shares at September 30, 2011 and December 31, 2010, respectively)	(11,738)	(11,173)
Accumulated other comprehensive income (loss)	5,292	2,978
Retained earnings	19,332	16,381
<b>Total Prudential Financial, Inc. equity</b>	<b>37,149</b>	<b>32,415</b>
<b>Noncontrolling interests</b>	<b>655</b>	<b>513</b>
<b>Total equity</b>	<b>37,804</b>	<b>32,928</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 611,473</b>	<b>\$ 539,854</b>

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

*See Notes to Unaudited Interim Consolidated Financial Statements*

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Operations****Three and Nine Months Ended September 30, 2011 and 2010 (in millions, except per share amounts)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>REVENUES</b>				
Premiums	\$ 6,092	\$ 4,654	\$ 17,892	\$ 13,500
Policy charges and fee income	958	761	2,911	2,436
Net investment income	3,333	3,016	9,778	8,800
Asset management fees and other income	2,006	1,457	3,823	3,211
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(402)	(435)	(1,606)	(2,198)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	286	345	1,233	1,715
Other realized investment gains (losses), net	2,644	119	3,319	2,687
Total realized investment gains (losses), net	2,528	29	2,946	2,204
Total revenues	14,917	9,917	37,350	30,151
<b>BENEFITS AND EXPENSES</b>				
Policyholders' benefits	6,208	4,538	17,676	13,668
Interest credited to policyholders' account balances	1,463	1,174	3,477	3,640
Dividends to policyholders	679	512	1,961	1,547
Amortization of deferred policy acquisition costs	1,786	(6)	2,888	1,412
General and administrative expenses	2,447	1,949	7,138	5,619
Total benefits and expenses	12,583	8,167	33,140	25,886
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>	<b>2,334</b>	<b>1,750</b>	<b>4,210</b>	<b>4,265</b>
Income tax expense	848	524	1,370	1,301
<b>INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>	<b>1,486</b>	<b>1,226</b>	<b>2,840</b>	<b>2,964</b>
Equity in earnings of operating joint ventures, net of taxes	67	14	183	33
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>1,553</b>	<b>1,240</b>	<b>3,023</b>	<b>2,997</b>
Income (loss) from discontinued operations, net of taxes	(9)	2	21	20
<b>NET INCOME</b>	<b>1,544</b>	<b>1,242</b>	<b>3,044</b>	<b>3,017</b>
Less: Income (loss) attributable to noncontrolling interests	10	(2)	64	(1)
<b>NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC</b>	<b>\$ 1,534</b>	<b>\$ 1,244</b>	<b>\$ 2,980</b>	<b>\$ 3,018</b>
<b>EARNINGS PER SHARE (See Note 8)</b>				
<b>Financial Services Businesses</b>				
<b>Basic:</b>				
	\$ 3.12	\$ 2.49	\$ 5.97	\$ 5.34

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock

	(0.02)	0.01	0.04	0.04
--	--------	------	------	------

Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 3.10	\$ 2.50	\$ 6.01	\$ 5.38
---	---------	---------	---------	---------

**Diluted:**

Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock

	\$ 3.08	\$ 2.46	\$ 5.89	\$ 5.27
--	---------	---------	---------	---------

Income (loss) from discontinued operations, net of taxes	(0.02)	0.00	0.04	0.04
--	--------	------	------	------

Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 3.06	\$ 2.46	\$ 5.93	\$ 5.31
---	---------	---------	---------	---------

**Closed Block Business**

**Basic and Diluted:**

Income from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock

	\$ 10.50	\$ 33.50	\$ 15.00	\$ 243.50
--	----------	----------	----------	-----------

Income from discontinued operations, net of taxes	0.00	0.50	0.00	0.50
---	------	------	------	------

Net income attributable to Prudential Financial, Inc. per share of Class B Stock	\$ 10.50	\$ 34.00	\$ 15.00	\$ 244.00
--	----------	----------	----------	-----------

*See Notes to Unaudited Interim Consolidated Financial Statements*

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Equity(1)****Nine Months Ended September 30, 2011 and 2010 (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
<b>Balance December 31, 2010</b>	\$ 6	\$ 24,223	\$ 16,381	\$ (11,173)	\$ 2,978	\$ 32,415	\$ 513	\$ 32,928
Common Stock acquired				(750)		(750)	0	(750)
Contributions from noncontrolling interests							10	10
Distributions to noncontrolling interests							(15)	(15)
Consolidations/deconsolidations of noncontrolling interests		0				0	54	54
Stock-based compensation programs		34	(29)	185		190		190
Comprehensive income:								
Net income			2,980			2,980	64	3,044
Other comprehensive income, net of tax					2,314	2,314	29	2,343
Total comprehensive income						5,294	93	5,387
<b>Balance, September 30, 2011</b>	\$ 6	\$ 24,257	\$ 19,332	\$ (11,738)	\$ 5,292	\$ 37,149	\$ 655	\$ 37,804

  

	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
<b>Balance, December 31, 2009</b>	\$ 6	\$ 23,235	\$ 13,787	\$ (11,390)	\$ (443)	\$ 25,195	\$ 534	\$ 25,729
Contributions from noncontrolling interests						0	6	6
Distributions to noncontrolling interests						0	(19)	(19)
Consolidations/deconsolidations of noncontrolling interests		(2)				(2)	(1)	(3)
Stock-based compensation programs		(11)	(11)	185		163		163
Comprehensive income:								
Net income			3,018			3,018	(1)	3,017
Other comprehensive income, net of tax					5,172	5,172	3	5,175
Total comprehensive income						8,190	2	8,192
<b>Balance, September 30, 2010</b>	\$ 6	\$ 23,222	\$ 16,794	\$ (11,205)	\$ 4,729	\$ 33,546	\$ 522	\$ 34,068

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

*See Notes to Unaudited Interim Consolidated Financial Statements*



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2011 and 2010 (in millions)**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,044	\$ 3,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(2,946)	(2,204)
Policy charges and fee income	(826)	(705)
Interest credited to policyholders' account balances	3,477	3,639
Depreciation and amortization	202	(56)
Gains on trading account assets supporting insurance liabilities, net	(179)	(720)
Change in:		
Deferred policy acquisition costs	(12)	(829)
Future policy benefits and other insurance liabilities	4,759	3,115
Other trading account assets	340	(669)
Income taxes	359	(1,539)
Other, net	2,603	1,555
<b>Cash flows from operating activities</b>	<b>10,821</b>	<b>4,604</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	31,857	20,703
Fixed maturities, held to maturity	336	333
Trading account assets supporting insurance liabilities and other trading account assets	18,883	31,169
Equity securities, available for sale	2,823	1,898
Commercial mortgage and other loans	3,138	3,067
Policy loans	1,521	1,263
Other long-term investments	1,556	750
Short-term investments	16,799	16,522
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(38,963)	(27,860)
Fixed maturities, held to maturity	(38)	(155)
Trading account assets supporting insurance liabilities and other trading account assets	(20,317)	(31,592)
Equity securities, available for sale	(2,335)	(1,872)
Commercial mortgage and other loans	(4,598)	(3,530)
Policy loans	(1,334)	(1,163)
Other long-term investments	(1,252)	(641)
Short-term investments	(16,858)	(15,436)
Acquisition of Subsidiaries, net of cash acquired.	(2,321)	0
Other, net	119	414
<b>Cash flows used in investing activities</b>	<b>(10,984)</b>	<b>(6,130)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Policyholders' account deposits	18,632	16,840
Policyholders' account withdrawals	(17,047)	(16,944)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	1,356	(515)
Cash dividends paid on Common Stock	(51)	(42)
Net change in financing arrangements (maturities 90 days or less)	207	554
Common Stock acquired	(695)	0
Common Stock reissued for exercise of stock options	89	78
Proceeds from the issuance of debt (maturities longer than 90 days)	1,229	2,623
Repayments of debt (maturities longer than 90 days)	(891)	(2,544)

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Excess tax benefits from share-based payment arrangements	13	11
Other, net	(249)	197
<b>Cash flows from financing activities</b>	<b>2,593</b>	<b>258</b>
Effect of foreign exchange rate changes on cash balances	181	77
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,611</b>	<b>(1,191)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>12,915</b>	<b>13,164</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 15,526</b>	<b>\$ 11,973</b>
<b>NON-CASH TRANSACTIONS DURING THE PERIOD</b>		
Treasury Stock shares issued for stock-based compensation programs	\$ 73	\$ 70

*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, investment management, and real estate services. 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 real estate and relocation services business as well as 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, except for the adjustment described below under Out of Period Adjustment. 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, 2010.

The Company's Gibraltar Life Insurance Company, Ltd. ( Gibraltar Life ) consolidated operations and the recently acquired AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively the Star and Edison Businesses ) use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. Therefore, the Consolidated Financial Statements as of September 30, 2011, include the assets and liabilities of Gibraltar Life and the Star and Edison Businesses as of August 31, 2011 and the results of operations for Gibraltar Life for the three and nine months ended August 31, 2011. The Consolidated Financial Statements as of September 30, 2011, include the results of operations for the Star and Edison Businesses from February 1, 2011, the acquisition date, through August 31, 2011.



**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

*Use of Estimates*

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

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

*Reclassifications*

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

*Out of Period Adjustment*

In the first quarter of 2011, the Company recorded an out of period adjustment that decreased Income from continuing operations before income taxes and equity in earnings of operating joint ventures by \$95 million. The adjustment is related to the amortization of unrealized losses associated with U.S. dollar denominated collateralized mortgage-backed securities held by the Gibraltar Life Insurance Company, Ltd. consolidated operations ( Gibraltar Life operations ), which were reclassified from available for sale to held to maturity in December 2008. The adjustment, which had no impact on the carrying value of these securities, resulted from using the contractual maturities of the securities rather than the expected effective duration of the securities as the basis for the amortization of the unrealized losses that existed when the securities were reclassified. The adjustment had no impact on adjusted operating income, the Company's measure of segment performance, and is not material to any previously reported quarterly or annual financial statements. For further information on the presentation of segment results and a definition of adjusted operating income, see Note 11.

**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; trading account assets; 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 prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on 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

---

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 asset-backed and mortgage-backed securities rated below AA, 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).

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

Other trading account assets, at fair value consist primarily of investments, 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 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 Accumulated other comprehensive income (loss). 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 declared.

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. Commercial mortgage loans are broken down by class which is based on property type (industrial properties, retail, office, multi-family/apartment, hospitality, and other). 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 real estate franchisees. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company's international insurance businesses.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 according to the contractual terms of the loan agreement will not all be collected. 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 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 according to the contractual terms of the loan agreement will not be collected.

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

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 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. Historical credit migration, loss rates and loss severity factors are updated each quarter based on the Company's actual loan experience, and are considered together with other relevant qualitative factors in making the final portfolio reserve calculations.

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

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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.

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 greater than three months and less than twelve months when purchased, other than those debt instruments meeting this 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 broker-dealer operations are marked-to-market through Asset management fees and other income.

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, recoveries of principal on previously impaired 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.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Under the authoritative guidance for the recognition and presentation of other-than-temporary impairments for debt securities, an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 guidance requires that the Company analyze 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 foreign currency denominated security in an unrealized loss position approaches maturity.

Under the authoritative guidance for the recognition and presentation of other-than-temporary impairments, 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 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 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 Accumulated other comprehensive income (loss).

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 prepayment assumptions, and are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates include 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.

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

***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 in insurance, investment and international businesses, and treasury operations to manage the interest rate and currency characteristics of assets or liabilities and to mitigate volatility, upon translation to U.S. dollars, 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 non-broker-dealer related 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 were also used in a derivative broker-dealer capacity in the Company's global commodities group to meet the needs of clients by structuring transactions that allow clients to manage their exposure to interest rates, foreign exchange rates, indices or prices of securities and commodities. The Company's global commodities group was sold on July 1, 2011. See Note 3 for further details. Realized and unrealized changes in fair value of derivatives used in these dealer related operations are included in Income from discontinued operations, net of taxes in the periods in which the changes occur. Cash flows from such derivatives are reported in the operating activities section of the Unaudited Interim Consolidated Statements of Cash Flows.

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 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

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 Accumulated other comprehensive income (loss) 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 Accumulated other comprehensive income (loss) 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. The 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 Accumulated other comprehensive income (loss) related to discontinued cash flow hedges is reclassified to the income statement line associated with the hedged cash flows consistent with the earnings impact of the original hedged cash flows.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified 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 Accumulated other comprehensive income (loss) 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 derivative are clearly and closely related to the economic characteristics of the remaining component

---

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 derivative 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 derivative 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 April 2011, the Financial Accounting Standards Board ( FASB ) issued updated guidance clarifying which restructurings constitute troubled debt restructurings. It is intended to assist creditors in their evaluation of whether conditions exist that constitute a troubled debt restructuring. This new guidance is effective for the first interim or annual reporting period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual reporting period of adoption. The Company's adoption of this guidance in the third quarter of 2011 did not have a material effect on the Company's consolidated financial position, results of operations, or financial statement disclosures.

In December 2010, the FASB issued authoritative guidance for business combinations that modifies the first step of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform the second step of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing authoritative guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This new guidance is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company's adoption of this guidance effective January 1, 2011 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In December 2010, the FASB issued authoritative guidance that specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance expands the supplemental pro forma disclosures required for business combinations to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings. This new guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted this guidance prospectively for business combinations for which the acquisition date is on or after January 1, 2011. The disclosures included in Note 3 reflect this guidance.

In July 2010, the FASB issued updated guidance that requires enhanced disclosures related to the allowance for credit losses and the credit quality of a company's financing receivable portfolio. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The Company adopted this guidance effective December 31, 2010. The disclosures

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning after

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

December 15, 2010. The required disclosures are included above and in Note 4. In January 2011, the FASB deferred the disclosures required by this guidance related to troubled debt restructurings. These disclosures are effective for the first interim or annual reporting period beginning on or after June 15, 2011, concurrent with the effective date of guidance for determining what constitutes a troubled debt restructuring. The disclosures required by this guidance related to troubled debt restructurings were adopted in the third quarter of 2011 and are included above and in Note 4.

In April 2010, the FASB issued authoritative guidance clarifying that an insurance entity should not consider any separate account interests in an investment held for the benefit of policyholders to be the insurer's interests, and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for a related party policyholder, whereby consolidation of such interests must be considered under applicable variable interest guidance. This guidance is effective for interim and annual reporting periods beginning after December 15, 2010 and retrospectively to all prior periods upon the date of adoption, with early adoption permitted. The Company's adoption of this guidance effective January 1, 2011 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In January 2010, the FASB issued updated guidance that requires new fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the roll forward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about level of disaggregation and valuation techniques and inputs. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of Level 3 activity, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the guidance effective for interim and annual reporting periods beginning after December 15, 2009 on January 1, 2010. The Company adopted the guidance effective for interim and annual reporting periods beginning after December 15, 2010 on January 1, 2011. The required disclosures are provided in Note 13.

***Future Adoption of New Accounting Pronouncements***

In September 2011, the FASB issued updated guidance regarding the application of the goodwill impairment test. The updated guidance allows an entity to first perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. However, if an entity concludes otherwise, then it must perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the impairment loss, if any. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and to proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The updated guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently assessing the impact of this guidance on the Company's financial statement disclosures but does not expect it to impact its consolidated financial position or results of operations.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

In June 2011, the FASB issued updated guidance regarding the presentation of comprehensive income. The updated guidance eliminates the option to present components of other comprehensive income as part of the

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

statement of changes in stockholders' equity. Under the updated guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance does not change the items that are reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In October 2011, the FASB proposed a deferral of the requirement to separately present reclassifications from the components of other comprehensive income to the components of net income on the face of the financial statements. If the deferral is effective, companies would still be required to adopt the other requirements of the updated guidance. This updated guidance is effective for the first interim or annual reporting period beginning after December 15, 2011 and should be applied retrospectively. The Company expects this guidance to impact its financial statement presentation but not to impact the Company's consolidated financial position or results of operations.

In May 2011, the FASB issued updated guidance regarding the fair value measurements and disclosure requirements. The updated guidance clarifies existing guidance related to the application of fair value measurement methods and requires expanded disclosures. This new guidance is effective for the first interim or annual reporting period beginning after December 15, 2011 and should be applied prospectively. The Company expects this guidance to have an impact on its financial statement disclosures but limited, if any, impact on the Company's consolidated financial position or results of operations.

In April 2011, the FASB issued updated guidance regarding the assessment of effective control for repurchase agreements. This new guidance is effective for the first interim or annual reporting period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In October 2010, the FASB issued authoritative guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. Under the amended guidance, acquisition costs are to include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs. An entity may defer incremental direct costs of contract acquisition with independent third parties or employees that are essential to the contract transaction, as well as the portion of employee compensation, including payroll fringe benefits, and other costs directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. This amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and permits, but does not require, retrospective application. The Company will adopt this guidance effective January 1, 2012, and expects to apply the retrospective method of adoption. Accordingly upon adoption, Deferred policy acquisition costs will be reduced and policy reserves for certain limited payment contracts within Future policy benefits will be increased with a corresponding reduction, net of taxes, to Retained earnings (and Total equity), as a result of acquisition costs previously deferred that are not eligible for deferral under the amended guidance. The Company estimates if the amended guidance were adopted as of September 30, 2011, retrospective adoption would reduce Deferred policy acquisition costs by approximately \$4.0 billion to \$5.0 billion, increase Future policy benefits by approximately \$0.2 billion to \$0.3 billion, and reduce Total equity by approximately \$2.7 billion to \$3.3 billion. Subsequent to the adoption of the guidance, the lower level of costs qualifying for deferral may be only partially offset by a lower level of amortization of Deferred policy acquisition costs, and, as such, may initially result in lower earnings in future periods, primarily within the International Insurance and Individual Annuities segments. The impact to the International Insurance segment largely reflects lower deferrals of allocated costs of its proprietary distribution system, while the impact to the Individual Annuities segment



**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

reflects lower deferrals of its wholesaler costs. While the adoption of this amended guidance changes the timing of when certain costs are reflected in the Company's results of operations, it has no effect on the total acquisition costs to be recognized over time and will have no impact on the Company's cash flows.

**3. ACQUISITIONS AND DISPOSITIONS**

***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 are Japanese corporations and their businesses are in Japan.

The Star and Edison Businesses primarily distribute individual life insurance, fixed annuities and certain accident and health products with fixed benefits through captive agents, independent agents, and banks. The addition of these operations to the Company's existing businesses increases its scale in the Japanese insurance market and provides complementary distribution opportunities.

Prudential Financial intends to make a Section 338(g) election under the Internal Revenue Code with respect to the acquisition resulting in the acquired entities being treated for U.S. tax purposes as newly-incorporated companies. Under such election, the U.S. tax basis of the assets acquired and liabilities assumed of the Star and Edison Businesses were adjusted as of February 1, 2011 to reflect the consequences of the Section 338(g) election.

Although the acquisition of the Star and Edison Businesses included the acquisition of multiple entities, the Company views this as a single acquisition and reports it as such in the following disclosures.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)***Net Assets Acquired*

The following table presents an allocation of the purchase price to assets acquired and liabilities assumed at February 1, 2011 (the Acquisition Date):

	(in millions)
Total invested assets at fair value(1)	\$ 43,103
Cash and cash equivalents	1,813
Accrued investment income	348
Value of business acquired ( VOBA )(2)	3,769
Goodwill(2)	173
Other assets(1)(2)(4)	880
<b>Total assets acquired</b>	<b>50,086</b>
Future policy benefits(2)(3)	22,202
Policyholders' account balances(2)(3)(5)	22,785
Long-term debt	496
Other liabilities(2)	390
<b>Total liabilities assumed</b>	<b>45,873</b>
<b>Net assets acquired</b>	<b>\$ 4,213</b>

- (1) Total invested assets, at fair value, include \$55 million of related party assets. Other assets include \$86 million of related party assets.
- (2) Reflects revisions to prior period presentation for correction of treatment of certain acquired policies and refinements to certain data.
- (3) Reflects reclassifications to prior period presentation for correction of classification of certain acquired policies.
- (4) Includes \$678 million of deferred taxes representing the difference between U.S. GAAP and local tax basis. In accordance with U.S. GAAP, the utilization of deferred tax assets recorded on the statements of financial position as of the acquisition date for Star and Edison are estimated to result in additional tax expense in the future of approximately \$440 million.
- (5) Includes investment contracts reported at fair value, which exceeded the account value by \$646 million.

*VOBA*

Value of business acquired ( VOBA ), which is established in accordance with purchase accounting guidance, is an intangible asset associated with the acquired in force insurance contracts representing the difference between the fair value and carrying value of the liabilities, determined as of the acquisition date. The fair value of the liabilities, and hence VOBA, reflects the cost of the capital attributable to the acquired insurance contracts. VOBA will be amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits will include both actual experience as it arises and estimates of gross profits for future periods. The Company will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. VOBA is reported as a component of Other assets and the

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

amortization of VOBA is reported in General and administrative expenses. The proportion of the VOBA balance attributable to each of the product groups associated with this acquisition are as follows: 48% related to accident and health insurance products, 45% related to individual life insurance, and 7% related to fixed annuities.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The following table provides estimated future amortization of VOBA, net of interest, relating to the Star and Edison Businesses for the periods indicated.

	<b>(in millions)</b>
Remainder of 2011	\$ 115
2012	\$ 424
2013	\$ 367
2014	\$ 319
2015	\$ 276
2016 and thereafter	\$ 2,174

Information regarding the change in VOBA is as follows:

	<b>(in millions)</b>
Balance as of February 1, 2011	\$ 3,769
Amortization	(356)
Interest	29
Foreign currency translation	233
<b>Balance as of September 30, 2011</b>	<b>\$ 3,675</b>

*Goodwill*

As a result of the acquisition of the Star and Edison Businesses, the Company recognized an asset for goodwill representing the excess of the acquisition cost over the net fair value of the assets acquired and liabilities assumed. Goodwill resulting from the acquisition of the Star and Edison Businesses amounted to \$173 million. As a result of the intended Section 338(g) election and the assumed repatriation of U.S. GAAP earnings, the Company currently estimates 100% of this amount to be U.S. tax deductible in the future. In accordance with GAAP, goodwill will not be amortized but rather will be tested at least annually for impairment. The test will be performed at the reporting unit level which for this acquisition is the International Insurance segment's Gibraltar Life and Other operations.

*Results of the Star and Edison Businesses since the Acquisition Date*

The Star and Edison Businesses use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. Due to this one month reporting lag, the Company's Unaudited Interim Consolidated Financial Statements as of September 30, 2011 include the results for the Star and Edison Businesses from February 1, 2011 through August 31, 2011. The following table presents selected

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

financial information reflecting results for the Star and Edison Businesses for the three months ended August 31, 2011 and from February 1, 2011 through August 31, 2011 that are included in the Company's Unaudited Interim Consolidated Statements of Operations for the three and nine months ended September 30, 2011, respectively.

	<b>Three Months Ended August 31, 2011</b>	<b>February 1, 2011 through August 31, 2011</b>
	<b>(in millions)</b>	
Total revenues	\$ 2,195	\$ 3,804
Income from continuing operations	675	721

The results of the Star and Edison Businesses in the table above include a pre-tax charge of \$30 million for estimated claims and expenses arising from the earthquake and tsunami in Japan on March 11, 2011. The results of the Star and Edison Businesses in the table above do not reflect the impact of transaction and integration costs

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

on the Company's results. Transaction costs represent costs directly related to effecting the acquisition. Integration costs are costs associated with the integration of the core operations of the Star and Edison Businesses with the Gibraltar Life operations. Both transaction and integration costs are expensed as incurred and are included in General and administrative expenses. For the three months ended September 30, 2011, the Company incurred \$43 million of integration costs reflected in the International Insurance segment. For the nine months ended September 30, 2011, the Company incurred \$119 million of transaction and integration costs reflected in the International Insurance segment and \$8 million of costs related to the acquisition reflected in Corporate and Other operations.

*Supplemental Unaudited Pro Forma Information*

The following supplemental information presents selected unaudited pro forma information for the Company assuming the acquisition had occurred as of January 1, 2010. This pro forma information does not purport to represent what the Company's actual results of operations would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods. The pro forma information does not reflect the impact of future events that may occur, including but not limited to, expense efficiencies arising from the acquisition and also does not give effect to certain one-time charges that the Company expects to incur, such as restructuring and integration costs.

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>	
	<b>September</b>	<b>September 30,</b>	
	<b>30,</b>	<b>2011</b>	<b>2010</b>
	<b>2010</b>	<b>(in millions, except per share amounts)</b>	
Total revenues	\$ 12,020	\$ 38,670	\$ 33,618
Income from continuing operations	1,869	3,188	3,166
Net income attributable to Prudential Financial, Inc.	1,873	3,145	3,186
<b>Earnings per share-Financial Services Businesses Basic:</b>			
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	\$ 3.70	\$ 6.31	\$ 5.49
Net income attributable to Prudential Financial, Inc. per share of Common Stock	3.70	6.36	5.52
<b>Diluted:</b>			
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	\$ 3.65	\$ 6.23	\$ 5.42
Net income attributable to Prudential Financial, Inc. per share of Common Stock	3.65	6.27	5.45
<b>Earnings per share-Closed Block Business Basic and Diluted:</b>			
Income from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	\$ 33.50	\$ 15.00	\$ 243.50
Net income attributable to Prudential Financial, Inc. per share of Class B Stock	34.00	15.00	244.00

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Global commodities business	\$ (2)	\$ (10)	\$ 16	\$ 19
Real estate investments sold or held for sale	3	1	21	5
Korean asset management operations	0	3	0	35
Mexican asset management operations	0	6	0	6
Other	0	1	0	0
Income from discontinued operations before income taxes	1	1	37	65
Income tax expense (benefit)	10	(1)	16	45
Income (loss) from discontinued operations, net of taxes	\$ (9)	\$ 2	\$ 21	\$ 20

On April 6, 2011, the Company entered into a stock and asset purchase agreement with Jefferies Group, Inc. ( Jefferies ), pursuant to which the Company agreed to sell to Jefferies all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its global commodities business (the Global Commodities Business) and certain assets that are primarily used in connection with the Global Commodities Business. Subsidiaries included in the sale are Prudential Bache Commodities, LLC, Prudential Bache Securities, LLC, Bache Commodities Limited, and Bache Commodities (Hong Kong) Ltd. On July 1, 2011, the Company completed the sale and received cash proceeds of \$422 million, which includes a final purchase price true-up of \$2 million received post closing. Included in the table above for the three and nine months ended September 30, 2011, are after-tax losses of \$10 million and \$17 million, respectively, recorded in connection with the sale of these operations. This consisted of pre-tax losses of \$6 million and \$18 million and income tax expense of \$4 million and income tax benefit of \$1 million, for the three and nine months ended September 30, 2011, respectively.

In the first quarter of 2010, the Company signed a definitive agreement to sell Prudential Investment & Securities Co. Ltd. and Prudential Asset Management Co. Ltd., which together comprise the Company's Korean asset management operations. This transaction closed in the second quarter of 2010. Included within the table above for the nine months ended September 30, 2010, is an after-tax loss of \$5 million recorded in connection with the sale of these operations, consisting of a pre-tax gain of \$29 million and income tax expense of \$34 million. Certain tax benefits related to the sale were recognized in the fourth quarter of 2009 as a result of the change in repatriation assumption of the earnings in these operations.

Real estate investments sold or held for sale reflects the income or loss from discontinued real estate investments.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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:

	September 30, 2011	December 31, 2010 (in millions)
Total assets	\$ 82	\$ 7,068
Total liabilities	\$ 95	\$ 6,646

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****4. INVESTMENTS***Fixed Maturities and Equity Securities*

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

	September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than- temporary Impairments in AOCI(4)
<b>Fixed maturities, available for sale</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 12,328	\$ 2,641	\$ 37	\$ 14,932	\$ 0
Obligations of U.S. states and their political subdivisions	2,621	378	18	2,981	0
Foreign government bonds	70,352	4,584	119	74,817	0
Corporate securities	118,895	9,863	3,007	125,751	(26)
Asset-backed securities(1)	12,561	196	1,828	10,929	(1,226)
Commercial mortgage-backed securities	12,002	614	151	12,465	6
Residential mortgage-backed securities(2)	9,775	556	94	10,237	(13)
<b>Total fixed maturities, available for sale</b>	<b>\$ 238,534</b>	<b>\$ 18,832</b>	<b>\$ 5,254</b>	<b>\$ 252,112</b>	<b>\$ (1,259)</b>
<b>Equity securities, available for sale(3)</b>	<b>\$ 7,082</b>	<b>\$ 861</b>	<b>\$ 481</b>	<b>\$ 7,462</b>	

(1) Includes credit tranching 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) As of September 30, 2011, perpetual preferred stocks of \$1.3 billion were reclassified to Other Trading Account Assets. Prior periods were not restated.

(4) 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 \$232 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

	September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-than- temporary Impairments in AOCI(4)

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	(in millions)				
<b>Fixed maturities, held to maturity</b>					
Foreign government bonds	\$ 1,257	\$ 122	\$ 0	\$ 1,379	\$ 0
Corporate securities(1)	1,122	25	72	1,075	0
Asset-backed securities(2)	1,250	65	0	1,315	0
Commercial mortgage-backed securities	446	79	0	525	0
Residential mortgage-backed securities(3)	1,120	70	0	1,190	0
<b>Total fixed maturities, held to maturity(1)</b>	<b>\$ 5,195</b>	<b>\$ 361</b>	<b>\$ 72</b>	<b>\$ 5,484</b>	<b>\$ 0</b>

- (1) Excludes notes with amortized cost of \$250 million (fair value, \$292 million) which have been offset with the associated payables under a netting agreement.
- (2) Includes credit tranching securities collateralized by auto loans, credit cards, education loans, and other asset types.
- (3) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
- (4) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than- temporary Impairments in AOCI(3)
<b>Fixed maturities, available for sale</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 10,930	\$ 663	\$ 295	\$ 11,298	\$ 0
Obligations of U.S. states and their political subdivisions	2,254	43	66	2,231	0
Foreign government bonds	47,414	2,920	95	50,239	0
Corporate securities	93,703	6,503	1,989	98,217	(30)
Asset-backed securities(1)	12,459	214	1,682	10,991	(1,413)
Commercial mortgage-backed securities	11,443	663	69	12,037	1
Residential mortgage-backed securities(2)	9,551	491	72	9,970	(13)
<b>Total fixed maturities, available for sale</b>	<b>\$ 187,754</b>	<b>\$ 11,497</b>	<b>\$ 4,268</b>	<b>\$ 194,983</b>	<b>\$ (1,455)</b>
<b>Equity securities, available for sale</b>	<b>\$ 6,469</b>	<b>\$ 1,393</b>	<b>\$ 121</b>	<b>\$ 7,741</b>	

(1) Includes credit tranching 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 \$606 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than- temporary Impairments in AOCI(3)
<b>Fixed maturities, held to maturity</b>					
Foreign government bonds	\$ 1,199	\$ 84	\$ 0	\$ 1,283	\$ 0
Corporate securities	1,059	12	67	1,004	0
Asset-backed securities(1)	1,179	48	1	1,226	0
Commercial mortgage-backed securities	475	106	0	581	0
Residential mortgage-backed securities(2)	1,314	69	0	1,383	0
<b>Total fixed maturities, held to maturity</b>	<b>\$ 5,226</b>	<b>\$ 319</b>	<b>\$ 68</b>	<b>\$ 5,477</b>	<b>\$ 0</b>

(1) Includes credit tranching securities collateralized by auto loans, credit cards, education loans, and other asset types.

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

(3)

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The amortized cost and fair value of fixed maturities by contractual maturities at September 30, 2011 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Due in one year or less	\$ 9,108	\$ 9,206	\$ 0	\$ 0
Due after one year through five years	47,158	47,968	76	77
Due after five years through ten years	54,326	57,415	369	379
Due after ten years(1)	93,604	103,892	1,934	1,998
Asset-backed securities	12,561	10,929	1,250	1,315
Commercial mortgage-backed securities	12,002	12,465	446	525
Residential mortgage-backed securities	9,775	10,237	1,120	1,190
Total(1)	\$ 238,534	\$ 252,112	\$ 5,195	\$ 5,484

(1) Excludes notes with amortized cost of \$250 million (fair value, \$292 million) which have been offset with the associated payables under a netting agreement.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
<b>Fixed maturities, available for sale</b>				
Proceeds from sales	\$ 8,333	\$ 2,562	\$ 19,262	\$ 8,961
Proceeds from maturities/repayments	3,804	3,986	13,062	11,762
Gross investment gains from sales, prepayments, and maturities	188	218	630	485
Gross investment losses from sales and maturities	(74)	(46)	(255)	(165)
<b>Fixed maturities, held to maturity</b>				
Gross investment gains from prepayments	\$ 0	\$ 0	\$ 0	\$ 0
Proceeds from maturities/repayments	68	108	338	332
<b>Equity securities, available for sale</b>				
Proceeds from sales	\$ 1,168	\$ 512	\$ 2,854	\$ 1,960

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Gross investment gains from sales	94	67	403	278
Gross investment losses from sales	(106)	(13)	(176)	(49)
<b>Fixed maturity and equity security impairments</b>				
Writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	\$ (116)	\$ (90)	\$ (373)	\$ (483)
Writedowns for impairments on equity securities	(42)	(25)	(101)	(101)

- (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.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

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

	<b>Three Months Ended September 30, 2011</b>	<b>Nine Months Ended September 30, 2011</b>
	(in millions)	
Balance, beginning of period	\$ 1,419	\$ 1,493
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(57)	(294)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	0	(31)
Credit loss impairment recognized in the current period on securities not previously impaired	8	34
Additional credit loss impairments recognized in the current period on securities previously impaired	34	192
Increases due to the passage of time on previously recorded credit losses	16	43
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(7)	(24)
Balance, end of period	\$ 1,413	\$ 1,413
	<b>Three Months Ended September 30, 2010</b>	<b>Nine Months Ended September 30, 2010</b>
	(in millions)	
Balance, beginning of period	\$ 1,775	\$ 1,752
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(42)	(295)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(24)	(32)
Credit loss impairment recognized in the current period on securities not previously impaired	4	134
Additional credit loss impairments recognized in the current period on securities previously impaired	26	157

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Increases due to the passage of time on previously recorded credit losses	18	81
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(10)	(50)
Balance, end of period	\$ 1,747	\$ 1,747

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Trading Account Assets Supporting Insurance Liabilities**

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

	September 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$ 1,096	\$ 1,096	\$ 697	\$ 697
Fixed maturities:				
Corporate securities	10,085	10,770	9,581	10,118
Commercial mortgage-backed securities	2,252	2,320	2,352	2,407
Residential mortgage-backed securities(1)	1,812	1,869	1,350	1,363
Asset-backed securities(2)	1,450	1,318	1,158	1,030
Foreign government bonds	638	648	567	569
U.S. government authorities and agencies and obligations of U.S. states	544	572	467	448
<b>Total fixed maturities</b>	<b>16,781</b>	<b>17,497</b>	<b>15,475</b>	<b>15,935</b>
Equity securities	1,095	942	1,156	1,139
<b>Total trading account assets supporting insurance liabilities</b>	<b>\$ 18,972</b>	<b>\$ 19,535</b>	<b>\$ 17,328</b>	<b>\$ 17,771</b>

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

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

The net change in unrealized gains and losses from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income included \$12 million and \$363 million of gains during the three months ended September 30, 2011 and 2010, respectively, and \$120 million and \$666 million of gains during the nine months ended September 30, 2011 and 2010, respectively.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Other Trading Account Assets**

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

	September 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$ 3	\$ 3	\$ 3	\$ 3
Fixed Maturities:				
Asset-backed securities	713	673	706	661
Residential mortgage-backed securities	202	116	301	181
Corporate securities	280	284	319	318
Commercial mortgage-backed securities	162	120	144	103
U.S. government authorities and agencies and obligations of U.S. states	66	72	212	214
Foreign government bonds	47	48	25	25
<b>Total fixed maturities</b>	<b>1,470</b>	<b>1,313</b>	<b>1,707</b>	<b>1,502</b>
Other	16	22	16	20
Equity securities(1)	1,736	1,676	548	561
<b>Subtotal</b>	<b>\$ 3,225</b>	<b>\$ 3,014</b>	<b>\$ 2,274</b>	<b>\$ 2,086</b>
Derivative instruments		3,548		2,139
<b>Total other trading account assets</b>	<b>\$ 3,225</b>	<b>\$ 6,562</b>	<b>\$ 2,274</b>	<b>\$ 4,225</b>

(1) As of September 30, 2011, perpetual preferred stocks of \$1.3 billion were reclassified from Equity securities, available for sale. Additionally, \$17 million was reclassified from OCI into Asset Management Fees and Other Income. Prior periods were not restated.

The net change in unrealized gains and losses from other trading account assets, excluding derivative instruments, still held at period end, recorded within Asset management fees and other income included \$126 million of losses and \$73 million of gains during the three months ended September 30, 2011 and 2010, respectively, and \$23 million of losses and \$47 million of gains during the nine months ended September 30, 2011 and 2010, respectively.

**Concentrations of Financial Instruments**

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

As of September 30, 2011 and December 31, 2010, the Company was not exposed to any concentrations of credit risk of any single issuer greater than 10% of the Company's stockholders' equity, other than securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

	September 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
<b>Investments in Japanese government and government agency securities:</b>				
Fixed maturities, available for sale	\$ 58,844	\$ 62,232	\$ 38,647	\$ 40,752
Fixed maturities, held to maturity	1,257	1,379	1,199	1,283
Trading account assets supporting insurance liabilities	463	475	418	424
Other trading account assets	41	41	23	24
Short-term investments	162	162	0	0
Cash equivalents	0	0	0	0
Total	\$ 60,767	\$ 64,289	\$ 40,287	\$ 42,483

	September 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
<b>Investments in South Korean government and government agency securities:</b>				
Fixed maturities, available for sale	\$ 4,407	\$ 4,914	\$ 3,963	\$ 4,238
Fixed maturities, held to maturity	0	0	0	0
Trading account assets supporting insurance liabilities	16	17	17	18
Other trading account assets	2	2	1	2
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	\$ 4,425	\$ 4,933	\$ 3,981	\$ 4,258

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial Mortgage and Other Loans**

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

	September 30, 2011		December 31, 2010	
	Amount	% of	Amount	% of
	(in millions)	Total	(in millions)	Total
<b>Commercial and agricultural mortgage loans by property type:</b>				
Office buildings	\$ 6,428	20.4%	\$ 5,803	19.5%
Retail	6,845	21.8	6,388	21.4
Apartments/Multi-Family	5,270	16.7	5,140	17.2
Industrial buildings	6,944	22.1	6,576	22.1
Hospitality	1,539	4.9	1,584	5.3
Other	2,404	7.6	2,440	8.2
Total commercial mortgage loans	29,430	93.5	27,931	93.7
Agricultural property loans	2,052	6.5	1,893	6.3
Total commercial and agricultural mortgage loans by property type	31,482	100.0%	29,824	100.0%
Valuation allowance	(353)		(505)	
Total net commercial and agricultural mortgage loans by property type	31,129		29,319	
<b>Other loans</b>				
Uncollateralized loans	2,040		1,468	
Residential property loans	1,075		891	
Other collateralized loans	210		223	
Total other loans	3,325		2,582	
Valuation allowance	(53)		(70)	
Total net other loans	3,272		2,512	
Total commercial mortgage and other loans(1)	\$ 34,401		\$ 31,831	

(1) Includes loans held at fair value.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (27%), New York (11%) and Texas (7%) at September 30, 2011.

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

	September 30, 2011					Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	
	(in millions)					
Allowance for losses, beginning of year	\$ 497	\$ 8	\$ 17	\$ 20	\$ 33	\$ 575
Addition to / (release of) allowance of losses	(157)	7	(1)	3	0	(148)
Charge-offs, net of recoveries	0	0	0	(6)	(15)	(21)
Change in foreign exchange	(2)	0	0	0	2	0
<b>Total Ending Balance</b>	<b>\$ 338</b>	<b>\$ 15</b>	<b>\$ 16</b>	<b>\$ 17</b>	<b>\$ 20</b>	<b>\$ 406</b>

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Commercial Mortgage Loans	Agricultural Property Loans	December 31, 2010		Uncollateralized Loans	Total
			Residential Property Loans	Other Collateralized Loans		
	(in millions)					
Allowance for losses, beginning of year	\$ 639	\$ 0	\$ 18	\$ 20	\$ 21	\$ 698
Addition to / (release of) allowance of losses	(125)	8	(2)	1	11	(107)
Charge-offs, net of recoveries	(17)	0	0	(1)	0	(18)
Change in foreign exchange	0	0	1	0	1	2
<b>Total Ending Balance</b>	<b>\$ 497</b>	<b>\$ 8</b>	<b>\$ 17</b>	<b>\$ 20</b>	<b>\$ 33</b>	<b>\$ 575</b>

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:

	Commercial Mortgage Loans	Agricultural Property Loans	September 30, 2011		Uncollateralized Loans	Total
			Residential Property Loans	Other Collateralized Loans		
	(in millions)					
<b>Allowance for Credit Losses:</b>						
Ending Balance: individually evaluated for impairment	\$ 131	\$ 6	\$ 0	\$ 17	\$ 0	\$ 154
Ending Balance: collectively evaluated for impairment	207	9	16	0	20	252
Ending Balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
<b>Total Ending Balance</b>	<b>\$ 338</b>	<b>\$ 15</b>	<b>\$ 16</b>	<b>\$ 17</b>	<b>\$ 20</b>	<b>\$ 406</b>

**Recorded Investment:(1)**

Ending balance gross of reserves: individually evaluated for impairment	\$ 1,576	\$ 45	\$ 0	\$ 139	\$ 6	\$ 1,766
Ending balance gross of reserves: collectively evaluated for impairment	27,854	2,007	1,075	71	2,034	33,041
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
<b>Total ending balance, gross of reserves</b>	<b>\$ 29,430</b>	<b>\$ 2,052</b>	<b>\$ 1,075</b>	<b>\$ 210</b>	<b>\$ 2,040</b>	<b>\$ 34,807</b>

(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, 2010					Uncollateralized Loans	Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	(in millions)		
<b>Allowance for Credit Losses:</b>							
Ending Balance: individually evaluated for impairment	\$ 264	\$ 0	\$ 0	\$ 20	\$ 16	\$ 300	
Ending Balance: collectively evaluated for impairment	233	8	17	0	17	275	
Ending Balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0	
<b>Total Ending Balance</b>	<b>\$ 497</b>	<b>\$ 8</b>	<b>\$ 17</b>	<b>\$ 20</b>	<b>\$ 33</b>	<b>\$ 575</b>	

**Recorded Investment:(1)**

Ending balance gross of reserves: individually evaluated for impairment	\$ 2,279	\$ 39	\$ 0	\$ 147	\$ 36	\$ 2,501
Ending balance gross of reserves: collectively evaluated for impairment	25,652	1,854	891	76	1,432	29,905
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
<b>Total ending balance, gross of reserves</b>	<b>\$ 27,931</b>	<b>\$ 1,893</b>	<b>\$ 891</b>	<b>\$ 223</b>	<b>\$ 1,468</b>	<b>\$ 32,406</b>

(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 amounts due according to the contractual terms of the loan agreement will not all be collected. 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:

	As of September 30, 2011				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance (in millions)	Average Recorded Investment Before Allowance(3)	Interest Income Recognized(2)
<b>With no related allowance recorded:</b>					
Commercial mortgage loans:					
Industrial	\$ 0	\$ 0	\$ 0	\$ 1	\$ 0
Retail	0	0	0	0	0
Office	0	0	0	1	0
Apartments/Multi-Family	0	0	0	0	0
Hospitality	0	0	0	28	0
Other	17	18	0	9	1
<b>Total commercial mortgage loans</b>	<b>17</b>	<b>18</b>	<b>0</b>	<b>39</b>	<b>1</b>
Agricultural property loans	1	0	0	1	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	6	12	0	6	0
<b>Total with no related allowance</b>	<b>\$ 24</b>	<b>\$ 30</b>	<b>\$ 0</b>	<b>\$ 46</b>	<b>\$ 1</b>
<b>With an allowance recorded:</b>					
Commercial mortgage loans:					
Industrial	\$ 37	\$ 37	\$ 19	\$ 32	\$ 0
Retail	38	38	4	120	1
Office	58	140	11	49	0
Apartments/Multi-Family	102	102	19	220	3
Hospitality	151	151	62	191	1
Other	95	95	16	102	3
<b>Total commercial mortgage loans</b>	<b>481</b>	<b>563</b>	<b>131</b>	<b>714</b>	<b>8</b>
Agricultural property loans	18	18	6	13	0
Residential property loans	0	0	0	6	0
Other collateralized loans	39	39	18	33	2
Uncollateralized loans	0	0	0	15	0

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Total with related allowance	\$ 538	\$ 620	\$ 155	\$ 781	\$ 10
<b>Total:</b>					
Commercial mortgage loans	\$ 498	\$ 581	\$ 131	\$ 753	\$ 9
Agricultural property loans	19	18	6	14	0
Residential property loans	0	0	0	6	0
Other collateralized loans	39	39	18	33	2
Uncollateralized loans	6	12	0	21	0
Total	\$ 562	\$ 650	\$ 155	\$ 827	\$ 11

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	As of December 31, 2010		
	Recorded Investment(1)	Unpaid Principal Balance (in millions)	Related Allowance
<b>With no related allowance recorded:</b>			
Commercial mortgage loans:			
Industrial	\$ 0	\$ 0	\$ 0
Retail	0	0	0
Office	0	0	0
Apartments/Multi-Family	0	0	0
Hospitality	64	64	0
Other	0	0	0
<b>Total commercial mortgage loans</b>	<b>64</b>	<b>64</b>	<b>0</b>
Agricultural property loans	1	1	0
Residential property loans	0	0	0
Other collateralized loans	0	0	0
Uncollateralized loans	0	12	0
<b>Total with no related allowance</b>	<b>\$ 65</b>	<b>\$ 77</b>	<b>\$ 0</b>
<b>With an allowance recorded:</b>			
Commercial mortgage loans:			
Industrial	\$ 18	\$ 18	\$ 18
Retail	155	155	23
Office	43	43	10
Apartments/Multi-Family	323	323	103
Hospitality	218	218	89
Other	95	96	21
<b>Total commercial mortgage loans</b>	<b>852</b>	<b>853</b>	<b>264</b>
Agricultural property loans	0	0	0
Residential property loans	26	31	0
Other collateralized loans	29	29	20
Uncollateralized loans	35	38	16
<b>Total with related allowance</b>	<b>\$ 942</b>	<b>\$ 951</b>	<b>\$ 300</b>
<b>Total:</b>			
Commercial mortgage loans	\$ 916	\$ 917	\$ 264
Agricultural property loans	1	1	0
Residential property loans	26	31	0
Other collateralized loans	29	29	20

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Uncollateralized loans	35	50	16
<b>Total</b>	<b>\$ 1,007</b>	<b>\$ 1,028</b>	<b>\$ 300</b>

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

Impaired commercial mortgage and other loans with no allowance for losses are loans in which the fair value of the collateral or the net present value of the loans expected future cash flows equals or exceeds the recorded investment. The average recorded investment in impaired loans with an allowance recorded, before the

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

allowance for losses, was \$750 million at December 31, 2010. Net investment income recognized on these loans totaled \$35 million for the year ended December 31, 2010. See Note 2 for information regarding the Company's accounting policies for commercial mortgage and other loans.

The net carrying value of commercial and other loans held for sale by the Company as of September 30, 2011 and December 31, 2010 was \$120 million and \$136 million, respectively. In all these transactions, the Company pre-arranges that it will sell the loan to an investor. As of September 30, 2011 and December 31, 2010, 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.

The following tables set forth the credit quality indicators as of September 30, 2011, based upon the recorded investment gross of allowance for credit losses.

**Commercial mortgage loans Industrial buildings**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 654	\$ 176	\$ 205	\$ 280	\$ 69	\$ 28	\$ 1,412
50%-59.99%	420	84	280	283	66	50	1,183
60%-69.99%	410	414	547	338	448	90	2,247
70%-79.99%	9	10	269	420	296	211	1,215
80%-89.99%	0	0	0	236	97	240	573
90%-100%	19	0	0	0	0	131	150
Greater than 100%	0	16	0	0	18	130	164
<b>Total Industrial</b>	<b>\$ 1,512</b>	<b>\$ 700</b>	<b>\$ 1,301</b>	<b>\$ 1,557</b>	<b>\$ 994</b>	<b>\$ 880</b>	<b>\$ 6,944</b>

**Commercial mortgage loans Retail**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 1,226	\$ 147	\$ 528	\$ 194	\$ 24	\$ 7	\$ 2,126

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

50%-59.99%	972	262	179	92	43	4	1,552
60%-69.99%	66	290	919	437	60	17	1,789
70%-79.99%	123	34	379	343	147	26	1,052
80%-89.99%	0	32	0	30	61	29	152
90%-100%	0	0	19	27	44	33	123
Greater than 100%	0	0	0	26	25	0	51
<b>Total Retail</b>	<b>\$ 2,387</b>	<b>\$ 765</b>	<b>\$ 2,024</b>	<b>\$ 1,149</b>	<b>\$ 404</b>	<b>\$ 116</b>	<b>\$ 6,845</b>

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Office**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 1,722	\$ 224	\$ 191	\$ 160	\$ 22	\$ 31	\$ 2,350
50%-59.99%	521	104	209	200	0	37	1,071
60%-69.99%	529	415	60	593	17	54	1,668
70%-79.99%	83	0	31	50	209	589	962
80%-89.99%	0	0	5	138	71	19	233
90%-100%	0	0	17	34	0	9	60
Greater than 100%	0	0	17	42	0	25	84
<b>Total Office</b>	<b>\$ 2,855</b>	<b>\$ 743</b>	<b>\$ 530</b>	<b>\$ 1,217</b>	<b>\$ 319</b>	<b>\$ 764</b>	<b>\$ 6,428</b>

**Commercial mortgage loans Apartments/Multi-Family**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 619	\$ 175	\$ 366	\$ 198	\$ 194	\$ 119	\$ 1,671
50%-59.99%	50	14	247	130	61	41	543
60%-69.99%	402	18	82	240	54	156	952
70%-79.99%	179	128	78	655	161	22	1,223
80%-89.99%	0	0	118	0	191	138	447
90%-100%	0	0	0	0	2	88	90
Greater than 100%	0	0	7	36	37	264	344
<b>Total Apartments/Multi-Family</b>	<b>\$ 1,250</b>	<b>\$ 335</b>	<b>\$ 898</b>	<b>\$ 1,259</b>	<b>\$ 700</b>	<b>\$ 828</b>	<b>\$ 5,270</b>

**Commercial mortgage loans Hospitality**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

(in millions)

<b>Loan-to-Value Ratio</b>								
0%-49.99%	\$ 144	\$ 159	\$ 0	\$ 116	\$ 24	\$ 0	\$ 443	
50%-59.99%	0	0	35	9	0	0	44	
60%-69.99%	51	5	45	318	58	11	488	
70%-79.99%	6	0	0	33	47	61	147	
80%-89.99%	0	0	77	0	27	107	211	
90%-100%	0	0	19	0	19	15	53	
Greater than 100%	0	59	0	0	4	90	153	
<b>Total Hospitality</b>	<b>\$ 201</b>	<b>\$ 223</b>	<b>\$ 176</b>	<b>\$ 476</b>	<b>\$ 179</b>	<b>\$ 284</b>	<b>\$ 1,539</b>	

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Other**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 296	\$ 24	\$ 13	\$ 104	\$ 1	\$ 1	\$ 439
50%-59.99%	0	46	7	7	1	0	61
60%-69.99%	126	313	329	249	119	7	1,143
70%-79.99%	108	11	222	159	13	0	513
80%-89.99%	0	0	45	25	6	6	82
90%-100%	0	0	0	40	34	14	88
Greater than 100%	0	0	0	0	27	51	78
<b>Total Other</b>	<b>\$ 530</b>	<b>\$ 394</b>	<b>\$ 616</b>	<b>\$ 584</b>	<b>\$ 201</b>	<b>\$ 79</b>	<b>\$ 2,404</b>

**Agricultural property loans**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 420	\$ 111	\$ 328	\$ 462	\$ 121	\$ 0	\$ 1,442
50%-59.99%	61	120	16	33	0	3	233
60%-69.99%	158	0	180	0	0	0	338
70%-79.99%	0	0	0	0	0	0	0
80%-89.99%	0	0	0	0	0	0	0
90%-100%	0	0	0	0	0	39	39
Greater than 100%	0	0	0	0	0	0	0
<b>Total Agricultural</b>	<b>\$ 639</b>	<b>\$ 231</b>	<b>\$ 524</b>	<b>\$ 495</b>	<b>\$ 121</b>	<b>\$ 42</b>	<b>\$ 2,052</b>

**Commercial mortgage and agricultural loans**

	Debt Service Coverage Ratio September 30, 2011						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	(in millions)						
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 5,081	\$ 1,016	\$ 1,631	\$ 1,514	\$ 455	\$ 186	\$ 9,883
50%-59.99%	2,024	630	973	754	171	135	4,687
60%-69.99%	1,742	1,455	2,162	2,175	756	335	8,625
70%-79.99%	508	183	979	1,660	873	909	5,112
80%-89.99%	0	32	245	429	453	539	1,698
90%-100%	19	0	55	101	99	329	603
Greater than 100%	0	75	24	104	111	560	874
<b>Total Commercial Mortgage and Agricultural</b>	<b>\$ 9,374</b>	<b>\$ 3,391</b>	<b>\$ 6,069</b>	<b>\$ 6,737</b>	<b>\$ 2,918</b>	<b>\$ 2,993</b>	<b>\$ 31,482</b>

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

See Note 2 for further discussion regarding the credit quality of other loans.

The following tables set forth the credit quality indicators as of December 31, 2010, based upon the recorded investment gross of allowance for credit losses.

**Commercial mortgage loans Industrial buildings**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 622	\$ 319	\$ 196	\$ 191	\$ 15	\$ 23	\$ 1,366
50%-59.99%	364	71	149	186	45	49	864
60%-69.99%	424	93	495	435	194	115	1,756
70%-79.99%	71	97	528	564	223	215	1,698
80%-89.99%	0	0	17	136	94	316	563
90%-100%	0	0	0	0	46	134	180
Greater than 100%	16	0	0	7	10	116	149
<b>Total Industrial</b>	<b>\$ 1,497</b>	<b>\$ 580</b>	<b>\$ 1,385</b>	<b>\$ 1,519</b>	<b>\$ 627</b>	<b>\$ 968</b>	<b>\$ 6,576</b>

**Commercial mortgage loans Retail**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 613	\$ 328	\$ 447	\$ 87	\$ 31	\$ 4	\$ 1,510
50%-59.99%	608	158	409	54	154	1	1,384
60%-69.99%	365	402	450	335	48	4	1,604
70%-79.99%	80	52	436	601	135	0	1,304
80%-89.99%	0	0	96	103	83	0	282
90%-100%	0	0	20	9	29	21	79
Greater than 100%	0	0	13	21	149	42	225
<b>Total Retail</b>	<b>\$ 1,666</b>	<b>\$ 940</b>	<b>\$ 1,871</b>	<b>\$ 1,210</b>	<b>\$ 629</b>	<b>\$ 72</b>	<b>\$ 6,388</b>



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Office**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 1,801	\$ 58	\$ 310	\$ 137	\$ 17	\$ 27	\$ 2,350
50%-59.99%	311	207	221	106	46	16	907
60%-69.99%	136	229	122	175	17	55	734
70%-79.99%	20	0	87	212	596	1	916
80%-89.99%	5	0	0	415	39	25	484
90%-100%	0	12	0	50	174	61	297
Greater than 100%	0	0	0	67	16	32	115
<b>Total Office</b>	<b>\$ 2,273</b>	<b>\$ 506</b>	<b>\$ 740</b>	<b>\$ 1,162</b>	<b>\$ 905</b>	<b>\$ 217</b>	<b>\$ 5,803</b>

**Commercial mortgage loans Apartments/Multi-Family**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 737	\$ 209	\$ 332	\$ 197	\$ 271	\$ 66	\$ 1,812
50%-59.99%	24	20	114	173	65	8	404
60%-69.99%	96	17	177	250	100	27	667
70%-79.99%	70	47	137	226	119	65	664
80%-89.99%	0	0	52	96	301	105	554
90%-100%	20	0	8	75	21	199	323
Greater than 100%	0	0	0	156	56	504	716
<b>Total Apartments/Multi-Family</b>	<b>\$ 947</b>	<b>\$ 293</b>	<b>\$ 820</b>	<b>\$ 1,173</b>	<b>\$ 933</b>	<b>\$ 974</b>	<b>\$ 5,140</b>

**Commercial mortgage loans Hospitality**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

(in millions)

<b>Loan-to-Value Ratio</b>								
0%-49.99%	\$ 153	\$ 0	\$ 128	\$ 120	\$ 0	\$ 28	\$ 429	
50%-59.99%	21	0	0	0	0	0	21	
60%-69.99%	0	36	52	156	59	11	314	
70%-79.99%	0	0	6	243	0	0	249	
80%-89.99%	0	4	72	0	72	101	249	
90%-100%	0	0	19	0	0	88	107	
Greater than 100%	0	0	0	59	35	121	215	
<b>Total Hospitality</b>	<b>\$ 174</b>	<b>\$ 40</b>	<b>\$ 277</b>	<b>\$ 578</b>	<b>\$ 166</b>	<b>\$ 349</b>	<b>\$ 1,584</b>	

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Other**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 377	\$ 0	\$ 14	\$ 19	\$ 0	\$ 1	\$ 411
50%-59.99%	40	14	25	59	0	0	138
60%-69.99%	57	193	37	457	123	7	874
70%-79.99%	3	67	194	107	74	0	445
80%-89.99%	133	0	45	135	11	6	330
90%-100%	0	0	0	0	0	10	10
Greater than 100%	0	0	0	38	33	161	232
<b>Total Other</b>	<b>\$ 610</b>	<b>\$ 274</b>	<b>\$ 315</b>	<b>\$ 815</b>	<b>\$ 241</b>	<b>\$ 185</b>	<b>\$ 2,440</b>

**Agricultural property loans**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X (in millions)	1.0X to <1.2X	Less than 1.0X	
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 407	\$ 107	\$ 349	\$ 488	\$ 121	\$ 5	\$ 1,477
50%-59.99%	38	136	18	26	0	0	218
60%-69.99%	161	0	0	0	28	0	189
70%-79.99%	0	0	0	0	0	9	9
80%-89.99%	0	0	0	0	0	0	0
90%-100%	0	0	0	0	0	0	0
Greater than 100%	0	0	0	0	0	0	0
<b>Total Agricultural</b>	<b>\$ 606</b>	<b>\$ 243</b>	<b>\$ 367</b>	<b>\$ 514</b>	<b>\$ 149</b>	<b>\$ 14</b>	<b>\$ 1,893</b>

**Commercial mortgage and agricultural loans**

	Debt Service Coverage Ratio December 31, 2010						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

(in millions)							
<b>Loan-to-Value Ratio</b>							
0%-49.99%	\$ 4,710	\$ 1,021	\$ 1,776	\$ 1,239	\$ 455	\$ 154	\$ 9,355
50%-59.99%	1,406	606	936	604	310	74	3,936
60%-69.99%	1,239	970	1,333	1,808	569	219	6,138
70%-79.99%	244	263	1,388	1,953	1,147	290	5,285
80%-89.99%	138	4	282	885	600	553	2,462
90%-100%	20	12	47	134	270	513	996
Greater than 100%	16	0	13	348	299	976	1,652
<b>Total Commercial Mortgage and Agricultural</b>	<b>\$ 7,773</b>	<b>\$ 2,876</b>	<b>\$ 5,775</b>	<b>\$ 6,971</b>	<b>\$ 3,650</b>	<b>\$ 2,779</b>	<b>\$ 29,824</b>

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

See Note 2 for further discussion regarding the credit quality of other loans.

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 of September 30, 2011						
		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
	Current						
	(in millions)						
<b>Commercial mortgage loans:</b>							
Industrial	\$ 6,944	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,944
Retail	6,825	2	0	0	18	20	6,845
Office	6,413	5	8	0	2	15	6,428
Apartments/Multi-Family	5,227	0	0	0	43	43	5,270
Hospitality	1,480	0	0	0	59	59	1,539
Other	2,369	7	0	0	28	35	2,404
<b>Total commercial mortgage loans</b>	<b>29,258</b>	<b>14</b>	<b>8</b>	<b>0</b>	<b>150</b>	<b>172</b>	<b>29,430</b>
Agricultural property loans	2,011	0	0	0	41	41	2,052
Residential property loans	1,030	15	7	0	23	45	1,075
Other collateralized loans	206	0	0	0	4	4	210
Uncollateralized loans	2,040	0	0	0	0	0	2,040
<b>Total</b>	<b>\$ 34,545</b>	<b>\$ 29</b>	<b>\$ 15</b>	<b>\$ 0</b>	<b>\$ 218</b>	<b>\$ 262</b>	<b>\$ 34,807</b>

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	As of December 31, 2010					Total Past Due	Total Commercial Mortgage and Other Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing (in millions)	Greater Than 90 Days - Not Accruing		
<b>Commercial mortgage loans:</b>							
Industrial	\$ 6,576	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,576
Retail	6,298	71	0	0	19	90	6,388
Office	5,774	22	0	0	7	29	5,803
Apartments/Multi-Family	4,907	33	15	0	185	233	5,140
Hospitality	1,467	11	10	0	96	117	1,584
Other	2,370	17	0	0	53	70	2,440
<b>Total commercial mortgage loans</b>	<b>27,392</b>	<b>154</b>	<b>25</b>	<b>0</b>	<b>360</b>	<b>539</b>	<b>27,931</b>
Agricultural property loans	1,853	1	0	0	39	40	1,893
Residential property loans	847	19	3	0	22	44	891
Other collateralized loans	212	0	0	0	11	11	223
Uncollateralized loans	1,468	0	0	0	0	0	1,468
<b>Total</b>	<b>\$ 31,772</b>	<b>\$ 174</b>	<b>\$ 28</b>	<b>\$ 0</b>	<b>\$ 432</b>	<b>\$ 634</b>	<b>\$ 32,406</b>

See Note 2 for further discussion regarding nonaccrual status loans. The following table sets forth commercial mortgage and other loans on nonaccrual status as of the dates indicated, based upon the recorded investment gross of allowance for credit losses:

	September 30, 2011	December 31, 2010 (in millions)
<b>Commercial mortgage loans:</b>		
Industrial	\$ 43	\$ 43
Retail	122	146
Office	58	65
Apartments/Multi-Family	102	410
Hospitality	199	290
Other	154	151
<b>Total commercial mortgage loans</b>	<b>678</b>	<b>1,105</b>
Agricultural property loans	45	39
Residential property loans	23	22
Other collateralized loans	41	50
Uncollateralized loans	6	35
<b>Total</b>	<b>\$ 793</b>	<b>\$ 1,251</b>



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The following table sets forth the commercial mortgage and other loans acquired and sold during the three months ended September 30, 2011:

	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Acquired(1)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Sold(2)	0	0	0	0	25	25

(1) Reported at purchase price of commercial mortgage and other loans acquired.

(2) Reported at book value of commercial mortgage and other loans sold.

The following tables provide information about commercial mortgage and other loans involved in a troubled debt restructuring as of the dates indicated. The pre-modification outstanding recorded investment has been adjusted for any partial payoffs, and the table excludes troubled debt restructurings where we have received assets, other than loans, in full satisfaction of the loan. See Note 2 for additional information relating to the accounting for troubled debt restructurings.

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Adjusted Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjusted Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(in millions)			
<b>Commercial mortgage loans:</b>				
Industrial	\$ 0	\$ 0	\$ 0	\$ 0
Retail	113	92	161	138
Office	0	0	5	5
Apartments/Multi-Family	38	36	38	36
Hospitality	11	10	31	29
Other	28	20	33	25
Total commercial mortgage loans	190	158	268	233
Agricultural property loans	0	0	0	0
Residential property loans	4	4	6	6
Other collateralized loans	0	0	8	7
Uncollateralized loans	0	0	0	0
Total	\$ 194	\$ 162	\$ 282	\$ 246

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

The amount of payment defaults during the period on commercial mortgage and other loans that were modified as a troubled debt restructuring within the last 12 months was less than \$1 million as of September 30, 2011.

As of September 30, 2011, the Company committed to fund \$3 million to borrowers that have been involved in a troubled debt restructuring.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Net Investment Income***

Net investment income for the three and nine months ended September 30, 2011 and 2010 was from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Fixed maturities, available for sale	\$ 2,401	\$ 2,109	\$ 6,958	\$ 6,229
Fixed maturities, held to maturity	37	32	105	100
Equity securities, available for sale	63	71	244	219
Trading account assets	249	218	668	615
Commercial mortgage and other loans	479	487	1,428	1,404
Policy loans	153	147	446	429
Broker-dealer related receivables	0	0	0	0
Short-term investments and cash equivalents	15	13	46	35
Other long-term investments	39	38	188	66
Gross investment income	3,436	3,115	10,083	9,097
Less: investment expenses	(103)	(99)	(305)	(297)
Net investment income	\$ 3,333	\$ 3,016	\$ 9,778	\$ 8,800

***Realized Investment Gains (Losses), Net***

Realized investment gains (losses), net, for the three and nine months ended September 30, 2011 and 2010 were from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Fixed maturities	\$ (2)	\$ 82	\$ 2	\$ (163)
Equity securities	(54)	29	126	128
Commercial mortgage and other loans	46	44	80	51
Investment real-estate	(4)	0	(16)	1
Joint ventures and limited partnerships	(19)	(12)	39	(36)
Derivatives(1)	2,557	(122)	2,693	2,208
Other	4	8	22	15

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Realized investment gains (losses), net	\$ 2,528	\$ 29	\$ 2,946	\$ 2,204
---	----------	-------	----------	----------

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

### *Net Unrealized Investment Gains (Losses)*

Net unrealized investment gains and losses on securities classified as available for sale and certain other long-term investments and other assets are included in the Consolidated Statements of Financial Position as a component of Accumulated other comprehensive income (loss), or AOCI. Changes in these amounts include reclassification adjustments to exclude from Other comprehensive income (loss) those items that are included as part of Net income for a period that had been part of Other comprehensive income (loss) in earlier

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows:

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

	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2010	\$ (849)	\$ 22	\$ (5)	\$ 334	\$ 174	\$ (324)
Net investment gains (losses) on investments arising during the period	(404)				141	(263)
Reclassification adjustment for (gains) losses included in net income	277				(97)	180
Reclassification adjustment for OTTI losses excluded from net income(1)	(51)				18	(33)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(7)			2	(5)
Impact of net unrealized investment (gains) losses on future policy benefits			10		(4)	6
Impact of net unrealized investment (gains) losses on policyholders' dividends				109	(38)	71
Balance, September 30, 2011	\$ (1,027)	\$ 15	\$ 5	\$ 443	\$ 196	\$ (368)

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)***All Other Net Unrealized Investment Gains and Losses in AOCI*

	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
(in millions)						
Balance, December 31, 2010	\$ 9,261	\$ (923)	\$ (901)	\$ (2,454)	\$ (1,514)	\$ 3,469
Net investment gains (losses) on investments arising during the period	5,952				(2,068)	3,884
Reclassification adjustment for (gains) losses included in net income	(399)				142	(257)
Reclassification adjustment for OTTI losses excluded from net income(2)	51				(18)	33
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(387)			138	(249)
Impact of net unrealized investment (gains) losses on future policy benefits			(513)		180	(333)
Impact of net unrealized investment (gains) losses on policyholders dividends				(1,656)	586	(1,070)
Balance, September 30, 2011	\$ 14,865	\$ (1,310)	\$ (1,414)	\$ (4,110)	\$ (2,554)	\$ 5,477

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

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

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

	September 30, 2011	December 31, 2010
(in millions)		
Fixed maturity securities on which an OTTI loss has been recognized	\$ (1,027)	\$ (849)
Fixed maturity securities, available for sale all other	14,605	8,078

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Equity securities, available for sale	380	1,272
Derivatives designated as cash flow hedges(1)	(102)	(262)
Other investments(2)	(18)	173
Net unrealized gains (losses) on investments	\$ 13,838	\$ 8,412

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

- (1) See Note 14 for more information on cash flow hedges.  
(2) As of September 30, 2011, includes \$125 million of net unrealized losses on held to maturity securities that were previously transferred from available for sale. Also includes net unrealized gains on certain joint ventures that are included in Other assets.

***Duration of Gross Unrealized Loss Positions for Fixed Maturities***

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

	Less than twelve months		September 30, 2011		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in millions)			
<b>Fixed maturities(1)</b>						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 990	\$ 17	\$ 115	\$ 20	\$ 1,105	\$ 37
Obligations of U.S. states and their political subdivisions	253	14	39	4	292	18
Foreign government bonds	2,464	98	227	21	2,691	119
Corporate securities	22,339	1,099	9,314	1,980	31,653	3,079
Commercial mortgage-backed securities	1,790	98	288	53	2,078	151
Asset-backed securities	1,908	38	4,382	1,790	6,290	1,828
Residential mortgage-backed securities	799	27	353	67	1,152	94
<b>Total</b>	<b>\$ 30,543</b>	<b>\$ 1,391</b>	<b>\$ 14,718</b>	<b>\$ 3,935</b>	<b>\$ 45,261</b>	<b>\$ 5,326</b>

- (1) Includes \$631 million of fair value and \$72 million of gross unrealized losses at September 30, 2011 on securities classified as held to maturity, a portion of which are not reflected in Accumulated other comprehensive income (loss).

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Less than twelve months		December 31, 2010 Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
<b>Fixed maturities(1)</b>						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 3,677	\$ 207	\$ 422	\$ 88	\$ 4,099	\$ 295
Obligations of U.S. states and their political subdivisions	1,273	60	53	6	1,326	66
Foreign government bonds	2,599	76	125	19	2,724	95
Corporate securities	12,385	460	9,982	1,596	22,367	2,056
Commercial mortgage-backed securities	552	9	350	60	902	69
Asset-backed securities	1,365	16	5,499	1,667	6,864	1,683
Residential mortgage-backed securities	897	17	447	55	1,344	72
<b>Total</b>	<b>\$ 22,748</b>	<b>\$ 845</b>	<b>\$ 16,878</b>	<b>\$ 3,491</b>	<b>\$ 39,626</b>	<b>\$ 4,336</b>

(1) Includes \$590 million of fair value and \$68 million of gross unrealized losses at December 31, 2010 on securities classified as held to maturity, a portion of which are not reflected in Accumulated other comprehensive income (loss).

The gross unrealized losses at September 30, 2011 and December 31, 2010 are composed of \$3,648 million and \$2,950 million, respectively, related to high or highest quality securities based on NAIC or equivalent rating and \$1,678 million and \$1,386 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At September 30, 2011, \$3,282 million of the gross unrealized losses represented declines in value of greater than 20%, \$924 million of which had been in that position for less than six months, as compared to \$2,238 million at December 31, 2010, that represented declines in value of greater than 20%, \$386 million of which had been in that position for less than six months. At September 30, 2011, the \$3,935 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, services, and finance sectors of the Company's corporate securities. At December 31, 2010, the \$3,491 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, finance, and services sectors of the Company's corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at September 30, 2011 or December 31, 2010. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to foreign currency movements, credit spread widening and increased liquidity discounts. At September 30, 2011, 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.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Duration of Gross Unrealized Loss Positions for Equity Securities***

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

	Less than twelve months		September 30, 2011 Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Equity securities, available for sale	\$ 3,047	\$ 479	\$ 4	\$ 2	\$ 3,051	\$ 481

(in millions)

	Less than twelve months		December 31, 2010 Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Equity securities, available for sale	\$ 1,098	\$ 87	\$ 326	\$ 34	\$ 1,424	\$ 121

(in millions)

At September 30, 2011, \$290 million of the gross unrealized losses represented declines of greater than 20%, \$289 million of which had been in that position for less than six months. At December 31, 2010, \$35 million of the gross unrealized losses represented declines of greater than 20%, \$18 million of which had been in that position for less than six months. Included in the December 31, 2010 table above are perpetual preferred securities. Perpetual preferred securities have characteristics of both debt and equity securities. Since an impairment model similar to fixed maturity securities is applied to these securities, an other-than-temporary impairment has not been recognized on certain perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of December 31, 2010. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at September 30, 2011 or December 31, 2010.

**5. VARIABLE INTEREST ENTITIES**

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

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 proprietary investing activity of the Company's asset management businesses. Additionally, the Company may invest in debt or equity 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 one CDO and certain other investment structures, as it meets both conditions listed above. The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs for which the Company is the investment manager are reported. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIE.

	September 30, 2011	December 31, 2010
	(in millions)	
Fixed maturities, available for sale	\$ 84	\$ 49
Commercial mortgage and other loans	286	341
Other long-term investments	17	17
Cash and cash equivalents	4	84
Accrued investment income	1	1
Other assets	2	3
Separate account assets	0	4
 Total assets of consolidated VIEs	 \$ 394	 \$ 499
 Other liabilities	 \$ 238	 \$ 379

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Separate account liabilities	0	4
<b>Total liabilities of consolidated VIEs</b>	<b>\$ 238</b>	<b>\$ 383</b>

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Other Consolidated Variable Interest Entities***

The Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities. 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.

	September 30, 2011	December 31, 2010
	(in millions)	
Fixed maturities, available for sale	\$ 129	\$ 136
Fixed maturities, held to maturity	1,189	1,130
Trading account assets supporting insurance liabilities	8	9
Other long-term investments	317	(119)
Cash and cash equivalents	0	(2)
Accrued investment income	5	5
Other assets	0	0
Total assets of consolidated VIEs	\$ 1,648	\$ 1,159
Total liabilities of consolidated VIEs	\$ 0	\$ 0

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 \$3,213 million and \$3,509 million at September 30, 2011 and December 31, 2010, 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 that was not contractually required to the trust.

*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 \$533 million and \$506 million at September 30, 2011 and December 31,

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

2010, respectively. These investments are reflected in Fixed maturities, available for sale, Other trading account assets, at fair value and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was \$8,030 million and \$8,979 million as of September 30, 2011 and December 31, 2010, 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 \$4,502 million and \$3,535 million as of September 30, 2011 and December 31, 2010, respectively.

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

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE's portfolio of assets and related investment activity. The market value of these VIEs was approximately \$2.9 billion and \$5.0 billion as of September 30, 2011 and December 31, 2010, respectively, and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available for sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through

Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. The Company's variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company's maximum exposure to loss from these interests was \$680 million and \$754 million at September 30, 2011 and December 31, 2010, 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.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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

---

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

As of September 30, 2011 and December 31, 2010, the Company recognized a policyholder dividend obligation of \$522 million and \$126 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block were reflected as a policyholder dividend obligation of \$3,662 million and \$2,117 million at September 30, 2011 and December 31, 2010, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss). See the table below for changes in the components of the policyholder dividend obligation for the nine months ended September 30, 2011.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

	September 30, 2011	December 31, 2010
	(in millions)	
<b>Closed Block Liabilities</b>		
Future policy benefits	\$ 51,413	\$ 51,632
Policyholders' dividends payable	958	909
Policyholders' dividend obligation	4,184	2,243
Policyholders' account balances	5,491	5,536
Other Closed Block liabilities	5,232	4,637
<b>Total Closed Block Liabilities</b>	<b>67,278</b>	<b>64,957</b>
<b>Closed Block Assets</b>		
Fixed maturities, available for sale, at fair value	42,631	41,044
Other trading account assets, at fair value	272	150
Equity securities, available for sale, at fair value	2,901	3,545
Commercial mortgage and other loans	8,404	7,827
Policy loans	5,307	5,377
Other long-term investments	2,084	1,662
Short-term investments	1,072	1,119
<b>Total investments</b>	<b>62,671</b>	<b>60,724</b>
Cash and cash equivalents	694	345
Accrued investment income	623	600
Other Closed Block assets	290	275
<b>Total Closed Block Assets</b>	<b>64,278</b>	<b>61,944</b>
<b>Excess of reported Closed Block Liabilities over Closed Block Assets</b>	<b>3,000</b>	<b>3,013</b>
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,644	2,092
Allocated to policyholder dividend obligation	(3,662)	(2,117)
<b>Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities</b>	<b>\$ 2,982</b>	<b>\$ 2,988</b>

Information regarding the policyholder dividend obligation is as follows:

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	<b>Nine Months Ended September 30, 2011 (in millions)</b>
Balance, January 1	\$ 2,243
Impact from earnings allocable to policyholder dividend obligation	396
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	1,545
Balance, September 30	\$ 4,184

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Closed Block revenues and benefits and expenses for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
(in millions)				
<b>Revenues</b>				
Premiums	\$ 667	\$ 684	\$ 2,129	\$ 2,191
Net investment income	731	751	2,221	2,226
Realized investment gains (losses), net	243	66	495	766
Other income	(2)	30	30	32
Total Closed Block revenues	1,639	1,531	4,875	5,215
<b>Benefits and Expenses</b>				
Policyholders' benefits	828	811	2,557	2,572
Interest credited to policyholders' account balances	35	35	104	105
Dividends to policyholders	639	480	1,848	1,462
General and administrative expenses	129	134	392	408
Total Closed Block benefits and expenses	1,631	1,460	4,901	4,547
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	8	71	(26)	668
Income tax expense (benefit)	5	(41)	(32)	116
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	3	112	6	552
Income from discontinued operations, net of taxes	0	1	0	1
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	\$ 3	\$ 113	\$ 6	\$ 553

**7. EQUITY**

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

Common Stock

Class B Stock

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	Issued	Held In Treasury	Outstanding (in millions)	Issued and Outstanding
Balance, December 31, 2010	660.1	176.3	483.8	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	14.8	(14.8)	0.0
Stock-based compensation programs(1)	0.0	(2.9)	2.9	0.0
Balance, September 30, 2011	660.1	188.2	471.9	2.0

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Common Stock Held in Treasury***

In June 2011, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to \$1.5 billion of its outstanding Common Stock through June 2012. The timing and amount of any share repurchases will be determined by management based on market conditions and other considerations, and the repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act. Numerous factors could affect the timing and amount of any repurchases under the share repurchase program, including increased capital needs of the Company's businesses due to opportunities for growth and acquisitions, as well as adverse market conditions. During the third quarter of 2011, the Company acquired 14.8 million shares of its Common Stock under this authorization at a total cost of \$750 million.

***Comprehensive Income***

The components of comprehensive income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net income	\$ 1,544	\$ 1,242	\$ 3,044	\$ 3,017
Other comprehensive income (loss), net of taxes:				
Change in foreign currency translation adjustments	52	509	345	415
Change in net unrealized investments gains (losses)(1)	1,221	1,997	1,964	4,719
Change in pension and postretirement unrecognized net periodic benefit	11	3	34	41
Other comprehensive income(2)	1,284	2,509	2,343	5,175
<b>Comprehensive income</b>	<b>2,828</b>	<b>3,751</b>	<b>5,387</b>	<b>8,192</b>
Comprehensive (income) loss attributable to noncontrolling interests	(16)	22	(93)	(2)
<b>Comprehensive income attributable to Prudential Financial, Inc.</b>	<b>\$ 2,812</b>	<b>\$ 3,773</b>	<b>\$ 5,294</b>	<b>\$ 8,190</b>

(1) Includes cash flow hedges of \$167 million and \$(119) million for the three months ended September 30, 2011 and 2010, respectively, and \$103 million and \$16 million for the nine months ended September 30, 2011 and 2010, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

(2) Amounts are net of tax expense of \$768 million and \$1,084 million for the three months ended September 30, 2011 and 2010, respectively, and \$1,205 million and \$2,507 million for the nine months ended September 30, 2011 and 2010, respectively.



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the nine months ended September 30, 2011 and 2010 are as follows (net of taxes):

	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, 2010	\$ 1,145	\$ 3,145	\$ (1,312)	\$ 2,978
Change in component during period	316	1,964	34	2,314
Balance, September 30, 2011	\$ 1,461	\$ 5,109	\$ (1,278)	\$ 5,292

	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, 2009	\$ 674	\$ 511	\$ (1,628)	\$ (443)
Change in component during period	412	4,719	41	5,172
Balance, September 30, 2010	\$ 1,086	\$ 5,230	\$ (1,587)	\$ 4,729

- (1) Includes cash flow hedges of \$(66) million and \$(169) million as of September 30, 2011 and December 31, 2010, respectively, and \$(189) million and \$(205) million as of September 30, 2010 and December 31, 2009, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

**8. EARNINGS PER SHARE**

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

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

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Common Stock**

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

	Income	Three Months Ended September 30,		Income	2010 Weighted Average Shares	Per Share Amount
		2011 Weighted Average Shares	Per Share Amount			
(in millions, except per share amounts)						
<b>Basic earnings per share</b>						
Income from continuing operations attributable to the Financial Services Businesses	\$ 1,524			\$ 1,164		
Direct equity adjustment	8			9		
Less: Income (loss) attributable to noncontrolling interests	10			(2)		
Less: Earnings allocated to participating unvested share-based payment awards	20			16		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 1,502	481.2	\$ 3.12	\$ 1,159	464.8	\$ 2.49
<b>Effect of dilutive securities and compensation programs</b>						
Add: Earnings allocated to participating unvested share-based payment awards Basic	\$ 20			\$ 16		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	20			15		
Stock options		2.5			2.9	
Deferred and long-term compensation programs		0.5			0.4	
Exchangeable Surplus Notes	4	5.1		4	5.1	
<b>Diluted earnings per share</b>						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 1,506	489.3	\$ 3.08	\$ 1,164	473.2	\$ 2.46

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Nine Months Ended September 30,					
	Income	2011 Weighted Average Shares	Per Share Amount	Income	2010 Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
<b>Basic earnings per share</b>						
Income from continuing operations attributable to the Financial Services Businesses	\$ 2,968			\$ 2,481		
Direct equity adjustment	25			29		
Less: Income (loss) attributable to noncontrolling interests	64			(1)		
Less: Earnings allocated to participating unvested share-based payment awards	39			33		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 2,890	484.0	\$ 5.97	\$ 2,478	464.0	\$ 5.34
<b>Effect of dilutive securities and compensation programs</b>						
Add: Earnings allocated to participating unvested share-based payment awards Basic	\$ 39			\$ 33		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	39			32		
Stock options		3.1			3.1	
Deferred and long-term compensation programs		0.5			0.5	
Exchangeable Surplus Notes	13	5.1		13	5.1	
<b>Diluted earnings per share</b>						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 2,903	492.7	\$ 5.89	\$ 2,492	472.7	\$ 5.27

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2011 and 2010 were based on 6.3 million and 6.2 million of such awards, respectively, weighted for the period they were outstanding. Undistributed earnings allocated to participating unvested share-based payment awards for the nine months ended September 30, 2011 and 2010 were based on 6.6 million and 6.1 million of such awards, respectively, weighted for the period they were outstanding. The computation of earnings per share of Common Stock excludes the dilutive impact of participating unvested share-based awards based on the application of the two-class method.

For the three months ended September 30, 2011 and 2010, 12.1 million and 11.2 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of \$71.15 and \$70.65 per share, respectively, were excluded from the computation of diluted earnings per share



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

because the options, based on application of the treasury stock method, were antidilutive. For the nine months ended September 30, 2011 and 2010, 10.3 million and 10.3 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of \$73.75 and \$72.00 per share, respectively, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive.

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

**Class B Stock**

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

	Three Months Ended September 30,					
	Income	2011 Weighted Average Shares	Per Share Amount	Income	2010 Weighted Average Shares	Per Share Amount
(in millions, except per share amounts)						
<b>Basic earnings per share</b>						
Income from continuing operations attributable to the Closed Block Business	\$ 29			\$ 76		
Less: Direct equity adjustment	8			9		

Income from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	\$ 21	2.0	\$ 10.50	\$ 67	2.0	\$ 33.50
--	-------	-----	----------	-------	-----	----------

	Nine Months Ended September 30,					
	Income	2011 Weighted Average Shares	Per Share Amount	Income	2010 Weighted Average Shares	Per Share Amount
(in millions, except per share amounts)						
<b>Basic earnings per share</b>						
Income from continuing operations attributable to the Closed Block Business	\$ 55			\$ 516		
Less: Direct equity adjustment	25			29		

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Income from continuing operations attributable to the Closed  
Block Business available to holders of Class B Stock after  
direct equity adjustment

\$ 30	2.0	\$ 15.00	\$ 487	2.0	\$ 243.50
-------	-----	----------	--------	-----	-----------

59

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****9. SHORT-TERM AND LONG-TERM DEBT***Commercial Paper*

The Company issues commercial paper under the two programs described below. At September 30, 2011 and December 31, 2010, the weighted average maturity of total commercial paper outstanding was 26 and 34 days, respectively.

Prudential Financial has a commercial paper program with an authorized capacity of \$3.0 billion. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of Prudential Financial's subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC, a wholly-owned subsidiary of Prudential Insurance has a commercial paper program with an authorized capacity of \$7.0 billion. Prudential Funding commercial paper borrowings generally have served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance. Prudential Financial has issued a subordinated guarantee covering Prudential Funding's commercial paper program.

The table below presents the Company's total outstanding commercial paper borrowings as of the dates indicated:

	September 30, 2011	December 31, 2010
	(in millions)	
Prudential Financial	\$ 290	\$ 283
Prudential Funding, LLC	988	874
<b>Total outstanding commercial paper borrowings</b>	<b>\$ 1,278</b>	<b>\$ 1,157</b>

*Medium-term Notes*

On May 12, 2011, Prudential Financial issued under its Medium-term Notes, Series D program \$500 million of 3% notes due May 2016 and \$300 million of 5.625% notes due May 2041.

*Federal Home Loan Bank of New York*

Prudential Insurance is a member of the Federal Home Loan Bank of New York, or FHLBNY. Membership allows Prudential Insurance access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements that can be used as an alternative source of liquidity. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings, depending on the type of asset pledged. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if Prudential Insurance's financial strength ratings decline below A/A2/A Stable by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance, or NJDOBI, regarding Prudential Insurance's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently, there are no restrictions on the term of borrowings from the FHLBNY.

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance's statutory net admitted assets as of December 31, 2010, the 5% limitation equates to a maximum amount of pledged assets of \$7.4 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately \$6.1 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at Prudential Insurance.

As of September 30, 2011, Prudential Insurance had pledged qualifying assets with a fair value of \$2.9 billion, which supported outstanding collateralized advances of \$1.0 billion and collateralized funding agreements of \$1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to \$5.5 billion as of September 30, 2011.

As of September 30, 2011, \$275 million of the FHLBNY outstanding advances is reflected in Short-term debt and matures in December 2011 and the remaining \$725 million is in Long-term debt and matures in December 2015. The funding agreements issued to the FHLBNY, which are reflected in Policyholders' account balances, have priority claim status above debt holders of Prudential Insurance.

***Federal Home Loan Bank of Boston***

Prudential Retirement Insurance and Annuity Company, or PRIAC, is a member of the Federal Home Loan Bank of Boston, or FHLBB. Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. PRIAC's membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of September 30, 2011, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to \$2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of September 30, 2011, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately \$1.4 billion.

Prudential Bank & Trust, FSB is also a member of FHLBB. As of September 30, 2011, Prudential Bank & Trust, FSB had no advances outstanding under this facility.

***Credit Facilities***

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

As of September 30, 2011, Prudential Financial, Prudential Insurance and Prudential Funding maintained an aggregate of \$4,108 million of unsecured committed credit facilities, which includes a \$1,250 million credit facility on which Prudential Financial is the sole borrower party. These facilities have remaining terms ranging from 3 months to 4.25 years. There were no outstanding borrowings under these credit facilities as of September 30, 2011. Each of the facilities is available to the applicable borrowers up to the aggregate committed credit and may be used for general corporate purposes, including as backup liquidity for the Company's commercial paper programs discussed above. For additional information on these credit facilities, see Note 14 to the Company's Consolidated Financial Statements included in the 2010 Annual Report on Form 10-K.

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

***Star and Edison Acquisition***

On February 1, 2011, the Company completed the acquisition of the Star and Edison Businesses from AIG. In conjunction with this acquisition, the Company assumed ¥47.8 billion of long-term debt, of which ¥32.5 billion and ¥5.3 billion are scheduled to mature in 2014 and 2026, respectively, and ¥10 billion of debt has no stated maturity date. The carrying value of the debt at September 30, 2011 was \$521 million. The Star and Edison Businesses hold \$79 million of the Company's medium-term notes. As a result, the consolidation of the Star and Edison Businesses with the Company effects a \$79 million reduction of the Company's consolidated long-term debt.

***Surplus Notes***

In March 2011, a subsidiary of Prudential Insurance entered into an agreement that provides for the issuance by that subsidiary of up to \$500 million of ten-year fixed rate surplus notes. At September 30, 2011, \$250 million of surplus notes were outstanding under this facility. Under the agreement, the subsidiary issuer received a debt security that is redeemable under certain circumstances including upon the occurrence of specified stress events affecting the subsidiary issuer. Interest and principal payments on the surplus notes and on the debt security are settled on a net basis because valid rights of set-off exist. Also, Prudential Financial agreed that it or one of its affiliates will make capital contributions to the subsidiary issuer of the surplus notes to reimburse it for investment losses in excess of specified amounts. Surplus notes issued under this facility are subordinated to policyholder obligations, and the payment of interest and principal may only be made with the prior approval of the Arizona Department of Insurance.

**10. EMPLOYEE BENEFIT PLANS**

***Pension and Other Postretirement Plans***

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

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



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(in millions)			
<b>Components of net periodic (benefit) cost</b>				
Service cost	\$ 58	\$ 45	\$ 3	\$ 3
Interest cost	123	118	27	28
Expected return on plan assets	(180)	(186)	(24)	(27)
Amortization of prior service cost	6	6	(3)	(3)
Amortization of actuarial (gain) loss, net	10	10	9	10
Special termination benefits	1	0	0	0
Net periodic (benefit) cost(1)(2)	\$ 18	\$ (7)	\$ 12	\$ 11

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(in millions)			
Service cost	\$ 163	\$ 134	\$ 9	\$ 9
Interest cost	365	352	81	84
Expected return on plan assets	(539)	(558)	(72)	(81)
Amortization of prior service cost	18	18	(9)	(9)
Amortization of actuarial (gain) loss, net	30	30	27	30
Curtailments	0	(6)	0	0
Special termination benefits	3	2	0	0
Net periodic (benefit) cost(1)(2)	\$ 40	\$ (28)	\$ 36	\$ 33

- (1) Includes net periodic (benefit) cost for pensions of \$13 million for the three months ended September 30, 2011 and \$29 million for the nine months ended September 30, 2011, related to the Star and Edison acquisition.
- (2) Includes net periodic (benefit) cost for pensions of \$0 million for the three months ended September 30, 2010 and \$(4) million for the nine months ended September 30, 2010 that have been classified as discontinued operations.

As a result of the acquisition of the Star and Edison Businesses, the divestiture of the Global Commodities business and other benefit payment changes, the Company expects that it will increase its cash contribution to the pension plans in 2011 by \$140 million, from approximately \$110 million to \$250 million.

**11. SEGMENT INFORMATION**

*Segments*

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

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

On April 6, 2011, the Company entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. This sale was completed on July 1, 2011. As a result, the Company has reflected the results of the Global Commodities Business, which historically have been presented in the International Investments segment, as discontinued operations for all periods presented. In addition, the remaining business activities in the Company's International Investments segment have been reclassified and included in the International Insurance segment. The reclassification of the remaining international investment business activities to the International Insurance segment had no impact on total adjusted operating income or net income of the Financial Services Businesses or the Closed Block Business.

***Adjusted Operating Income***

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using adjusted operating income. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below.

Adjusted operating income is calculated by adjusting each segment's income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the following items, which are described in greater detail below:

realized investment gains (losses), net, and related charges and adjustments;

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

the contribution to income/loss of divested businesses that have been or will be sold or exited but that did not qualify for discontinued operations accounting treatment under U.S. GAAP; and

equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

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

*Realized investment gains (losses), net, and related charges and adjustments.* Adjusted operating income excludes realized investment gains (losses), net, except as indicated below. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses from sales of securities. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile. Trends in the underlying profitability of the Company's businesses can be more clearly identified without the fluctuating effects of these transactions.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Charges that relate to realized investment gains (losses), net, are also excluded from adjusted operating income. The related charges are associated with: policyholder dividends; amortization of deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements; interest credited to policyholders' account balances; reserves for future policy benefits; and payments associated with the market value adjustment features related to certain of the annuity products the Company sells. Prior to its final payment in the second quarter of 2010, the related charges associated with policyholder dividends included a percentage of the net increase in the fair value of specified assets included in Gibraltar Life's reorganization plan that was paid as a special dividend to Gibraltar Life policyholders. Deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements for certain products are amortized based on estimated gross profits, which include net realized investment gains and losses on the underlying invested assets including certain portions of the net realized investment gains and losses related to the embedded derivatives and related hedging positions associated with the living benefit features of certain products. The related charge for these items represents the portion of this amortization associated with net realized investment gains and losses. The related charges for interest credited to policyholders' account balances relate to certain group life policies that pass back certain realized investment gains and losses to the policyholder. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment. Certain of the Company's annuity products contain a market value adjustment feature that requires us to pay to the contractholder or entitles us to receive from the contractholder, upon surrender, a market value adjustment based on the crediting rates on the contract surrendered compared to crediting rates on newly issued contracts or based on an index rate at the time of purchase compared to an index rate at time of surrender, as applicable. These payments mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets. The related charge represents the payments or receipts associated with these market value adjustment features.

Adjustments to Realized investment gains (losses), net, for purposes of calculating adjusted operating income, include the following:

Gains and losses pertaining to derivative contracts that do not qualify for hedge accounting treatment are included in Realized investment gains (losses), net. This includes mark-to-market adjustments of open contracts as well as periodic settlements. As discussed further below, adjusted operating income includes a portion of realized gains and losses pertaining to certain derivative contracts.

Adjusted operating income of the International Insurance segment reflects the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment's non-U.S. dollar denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segments' U.S. dollar equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP and, as noted above, all resulting profits or losses from such contracts are included in Realized investment gains (losses), net. When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income (net losses of \$54 million and \$27 million for the three months ended September 30, 2011 and 2010, respectively, and net losses of \$131 million and \$58 million for the nine months ended September 30, 2011 and 2010, respectively). As of September 30, 2011 and December 31, 2010, the fair value of open contracts used for this purpose were net liabilities of \$240 million and \$252 million, respectively.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the derivative contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in Realized investment gains (losses), net. However, the periodic swap settlements, as well as other derivative related yield adjustments, are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses recorded within Realized investment gains (losses), net are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Adjusted operating income includes net gains of \$66 million and \$49 million for the three months ended September 30, 2011 and 2010, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of \$13 million and \$9 million, respectively, related to certain derivative contracts that were terminated or offset in prior periods. Adjusted operating income includes net gains of \$189 million and \$180 million for the nine months ended September 30, 2011 and 2010, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of \$37 million and \$24 million, respectively, related to derivative contracts that were terminated or offset in prior periods. The table below reflects the total deferred gain (loss) as of September 30, 2011, related to derivative contracts that were terminated or offset in prior periods that will be recognized in adjusted operating income in future periods for each segment, as well as the weighted average period over which these deferred amounts will be recognized.

<b>Segment:</b>	<b>Deferred Amount (in millions)</b>	<b>Weighted Average Period (in years)</b>
International Insurance	\$ 672	29
Asset Management	22	8
Corporate and Other	(42)	6
<b>Total deferred gain (loss)</b>	<b>\$ 652</b>	

Adjustments are also made for the purposes of calculating adjusted operating income for the following items:

The Company conducts certain activities for which Realized investment gains (losses), net are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company's Asset Management segment. For example, Asset Management's proprietary investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company's managed funds and structured products. The Realized investment gains (losses), net associated with the sale of these proprietary investments, as well as related derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the Realized investment gains (losses), net associated with loans originated by the Company's commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income. Net realized investment gains of \$43 million and losses of \$1 million for the three months ended September 30, 2011 and 2010, respectively, and net gains of \$145 million and \$9 million for the nine months ended September 30, 2011 and 2010, respectively, related to these and other businesses were included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the

---

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Company's statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income, and interest and dividend income for these investments is recorded in Net investment income. Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments, which is recorded within Asset management fees and other income, is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. The net impact of these adjustments was to exclude from adjusted operating income net losses of \$104 million and gains of \$23 million, for the three months ended September 30, 2011 and 2010, respectively, and net losses of \$47 million and gains of \$18 million for the nine months ended September 30, 2011 and 2010, respectively.

The Company has certain assets and liabilities for which, under GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company's capital funding strategies for its international subsidiaries, the change in value included in Asset management fees and other income is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. The net impact of these foreign currency related and certain other adjustments was to exclude from adjusted operating income net gains of \$1,247 million, and \$197 million for the three months ended September 30, 2011 and 2010, respectively, and net gains of \$1,033 million and \$154 million for the nine months ended September 30, 2011 and 2010, respectively.

In the first quarter of 2011, the Company recorded an out of period adjustment that decreased income from continuing operations before equity in earnings of operating joint ventures by \$95 million. The adjustment is related to the amortization of unrealized losses associated with U.S. dollar-denominated collateralized mortgage-backed securities held by the Gibraltar Life operations that were reclassified from available for sale to held-to-maturity in December 2008. The adjustment, which had no impact on the carrying value of the U.S. dollar denominated collateralized mortgage-backed securities, resulted from amortizing the unrealized losses that existed when the securities were reclassified over a period greater than the expected effective duration of the securities. The adjustment does not impact current or prior period adjusted operating income of any segments and is included as a component of the foreign currency related and certain other adjustments discussed above.

In connection with the settlement of disputes arising out of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc. as described in Note 15, the Company has recorded additional losses of \$65 million in the first quarter of 2011 related to a portion of its counterparty exposure on derivative transactions it had previously held with Lehman Brothers and its affiliates. This loss is recorded within Asset management fees and other income within the Company's Corporate and Other operations and is excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net, which is consistent with the adjusted operating income treatment of similar credit-related losses that are recorded within Realized investment gains (losses), net. Any subsequent recoveries arising from this settlement will also be excluded from adjusted operating income.

*Investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes.* Certain products included in the Retirement and International Insurance segments, are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage and other loans, are classified as trading and are carried at fair value. These trading investments are reflected on the statements of financial position as Trading account assets supporting insurance liabilities, at fair value. Realized and unrealized gains and losses for these investments are reported in Asset management fees and other income. Interest and dividend income for these investments is



**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

reported in Net investment income. Commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the statements of financial position as Commercial mortgage and other loans.

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

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

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

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:				
Individual Annuities	\$ (191)	\$ 588	\$ 322	\$ 701
Retirement	111	119	456	425
Asset Management	123	148	504	355
<b>Total U.S. Retirement Solutions and Investment Management Division</b>	<b>43</b>	<b>855</b>	<b>1,282</b>	<b>1,481</b>
Individual Life	145	190	371	369
Group Insurance	64	61	153	146
<b>Total U.S. Individual Life and Group Insurance Division</b>	<b>209</b>	<b>251</b>	<b>524</b>	<b>515</b>
International Insurance	751	540	2,013	1,497
<b>Total International Insurance Division</b>	<b>751</b>	<b>540</b>	<b>2,013</b>	<b>1,497</b>
Corporate Operations	(341)	(284)	(834)	(677)
Real Estate and Relocation Services	14	19	4	22
<b>Total Corporate and Other</b>	<b>(327)</b>	<b>(265)</b>	<b>(830)</b>	<b>(655)</b>
<b>Adjusted Operating Income before income taxes for Financial Services Businesses</b>	<b>676</b>	<b>1,381</b>	<b>2,989</b>	<b>2,838</b>
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	3,376	166	3,178	1,485
Charges related to realized investment gains (losses), net	(1,752)	118	(1,925)	(641)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	10	388	170	719
Change in experience-rated contractholder liabilities due to asset value changes	68	(367)	(76)	(831)
Divested businesses	2	(32)	(1)	(46)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(88)	(18)	(203)	(36)
<b>Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses</b>	<b>2,292</b>	<b>1,636</b>	<b>4,132</b>	<b>3,488</b>
	42	114	78	777

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business

Income from continuing operations before income taxes and equity in earnings of operating joint ventures	\$ 2,334	\$ 1,750	\$ 4,210	\$ 4,265
--	----------	----------	----------	----------

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

The summary below presents revenues for the Company's reportable segments:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(in millions)			
<b>Financial Services Businesses:</b>				
Individual Annuities	\$ 905	\$ 807	\$ 2,736	\$ 2,334
Retirement	1,171	1,376	3,625	3,875
Asset Management	513	493	1,717	1,366
<b>Total U.S. Retirement Solutions and Investment Management Division</b>	<b>2,589</b>	<b>2,676</b>	<b>8,078</b>	<b>7,575</b>
Individual Life	643	638	2,131	2,076
Group Insurance	1,560	1,466	4,552	4,093
<b>Total U.S. Individual Life and Group Insurance Division</b>	<b>2,203</b>	<b>2,104</b>	<b>6,683</b>	<b>6,169</b>
International Insurance	5,126	3,042	14,503	8,947
<b>Total International Insurance Division</b>	<b>5,126</b>	<b>3,042</b>	<b>14,503</b>	<b>8,947</b>
Corporate Operations	(33)	(63)	(120)	(169)
Real Estate and Relocation Services	65	66	157	167
<b>Total Corporate and Other</b>	<b>32</b>	<b>3</b>	<b>37</b>	<b>(2)</b>
<b>Total</b>	<b>9,950</b>	<b>7,825</b>	<b>29,301</b>	<b>22,689</b>
<b>Reconciling items:</b>				
Realized investment gains (losses), net, and related adjustments	3,376	166	3,178	1,485
Charges related to realized investment gains (losses), net	(21)	(42)	(88)	(115)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	10	388	170	719
Divested businesses	5	4	10	6
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(98)	(16)	(267)	(35)
<b>Total Financial Services Businesses</b>	<b>13,222</b>	<b>8,325</b>	<b>32,304</b>	<b>24,749</b>

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Closed Block Business	1,695	1,592	5,046	5,402
Total per Unaudited Interim Consolidated Financial Statements	\$ 14,917	\$ 9,917	\$ 37,350	\$ 30,151

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Asset Management segment intersegment revenues	\$ 122	\$ 102	\$ 353	\$ 290

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

The summary below presents total assets for the Company's reportable segments as of the dates indicated:

	September 30, 2011	December 31, 2010
	(in millions)	
Individual Annuities	\$ 117,077	\$ 108,879
Retirement	129,703	130,854
Asset Management	35,448	32,920
Total U.S. Retirement Solutions and Investment Management Division	282,228	272,653
Individual Life	42,492	41,131
Group Insurance	36,476	35,490
Total U.S. Individual Life and Group Insurance Division	78,968	76,621
International Insurance	169,873	103,097
Total International Insurance Division	169,873	103,097
Corporate Operations	9,567	19,090
Real Estate and Relocation Services	641	685
Total Corporate and Other	10,208	19,775
Total Financial Services Businesses	541,277	472,146
Closed Block Business	70,196	67,708

Total	\$ 611,473	\$ 539,854
-------	------------	------------

## 12. INCOME TAXES

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ( IRS ) or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ( tax attributes ), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The statute of limitations for the 2002 tax year expired on April 30, 2009. The statute of limitations for the 2003 tax year expired on July 31, 2009. The statute of limitations for the 2004 through 2007 tax years will expire in February 2012, unless extended. Tax years 2008 through 2010 are still open for IRS examination. The Company has commenced settlement discussions with the IRS that could result in the closure of the audit of tax years through

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

2006. The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could significantly change in the next twelve months. However, due to the nature of the uncertainties, a range of the amount of the potential change cannot be reasonably predicted.

The dividends received deduction ( DRD ) reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company's effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2010 and current year results, and was adjusted to take into account the current year's equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts and the Company's taxable income before the DRD.

In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new regulations the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On February 14, 2011, the Obama Administration released the General Explanations of the Administration's Revenue Proposals. Although the Administration has not released proposed statutory language, one proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulation or legislation, could increase actual tax expense and reduce the Company's consolidated net income. These activities had no impact on the Company's results in 2010 or the first nine months of 2011.

In December 2006, the IRS completed all fieldwork with respect to its examination of the consolidated federal income tax returns for tax years 2002 and 2003. The final report was initially submitted to the Joint Committee on Taxation for their review in April 2007. The final report was resubmitted in March 2008 and again in April 2008. The Joint Committee returned the report to the IRS for additional review of an industry issue regarding the methodology for calculating the DRD related to variable life insurance and annuity contracts. The IRS completed its review of the issue and proposed an adjustment with respect to the calculation of the DRD. In order to expedite receipt of an income tax refund related to the 2002 and 2003 tax years, the Company agreed to such adjustment. The report, with the adjustment to the DRD, was submitted to the Joint Committee on Taxation in October 2008. The Company was advised on January 2, 2009 that the Joint Committee completed its consideration of the report and took no exception to the conclusions reached by the IRS. Accordingly, the final report was processed and a \$157 million refund was received in February 2009. The Company believed that its return position with respect to the calculation of the DRD is technically correct. Therefore, the Company filed protective refund claims on October 1, 2009 to recover the taxes associated with the agreed upon adjustment. The IRS issued an Industry Director Directive ( IDD ) in May 2010 stating that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. The Company has received a refund of approximately \$3 million pursuant to the protective refund claims. These activities had no impact on the Company's results in 2010 or first nine months of 2011.

In January 2007, the IRS began an examination of tax years 2004 through 2006. During 2004 through 2006, the Company entered into two transactions that involved, among other things, the payment of foreign income taxes that were credited against the Company's U.S. tax liability. On May 23, 2011, the IRS issued notices of



**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

proposed adjustments disallowing the foreign tax credits claimed and related transaction expenses. The total amount of the proposed adjustments for the transactions is approximately \$200 million of tax and penalties. The Company believes that the tax benefits associated with the transactions were consistent with IRS published guidance existing at the time the transactions were entered into and with various judicial decisions. Accordingly, the Company disagrees with the proposed adjustments and is in discussions with the IRS regarding the notices. These activities had no impact on the Company's results in 2010 or first nine months of 2011.

For tax years 2007 through 2010, the Company is participating in the IRS's Compliance Assurance Program (CAP). Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management's expectation this program will shorten the time period between the filing of the Company's federal income tax returns and the IRS's completion of its examination of the returns.

The Company's affiliates in Japan file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed.

The Company's affiliates in Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2010, South Korea's National Tax Service concluded a general tax audit of POK's tax years ending March 31, 2006 to March 31, 2010. These activities had no material impact on the Company's results in 2010 or first nine months of 2011.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act, which was modified by the Health Care and Education Reconciliation Act of 2010 signed into law on March 30, 2010, (together, the Healthcare Act). The federal government provides a subsidy to companies that provide certain retiree prescription drug benefits (the Medicare Part D subsidy), including the Company. The Medicare Part D subsidy was previously provided tax-free. However, as currently adopted, the Healthcare Act includes a provision that would reduce the tax deductibility of retiree health care costs to the extent of any Medicare Part D subsidy received. In effect, this provision of the Healthcare Act makes the Medicare Part D subsidy taxable beginning in 2013. Therefore, the Company incurred a charge in the first quarter of 2010 for the reduction of deferred tax assets of \$94 million, which reduces net income and is reflected in Income tax expense (benefit).

**13. FAIR VALUE OF ASSETS AND LIABILITIES**

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

Level 1 Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company s

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Level 1 assets and liabilities primarily include certain cash equivalents and short term investments, equity securities and derivative contracts that are traded in an active exchange market. Prices are obtained from readily available sources for market transactions involving identical assets or liabilities.

Level 2 Fair value is based on significant inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not actively trade and are priced based on a net asset value) and commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through comparison to trade data and internal estimates of current fair value, generally developed using market observable inputs and economic indicators.

Level 3 Fair value is based on at least one or more significant unobservable inputs for the asset or liability. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain conditions, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company may choose to over-ride the third-party pricing information or quotes received and apply internally-developed values to the related assets or liabilities. To the extent the internally-developed valuations use significant unobservable inputs, they are classified as Level 3. As of September 30, 2011 and December 31, 2010, these over-rides on a net basis were not material.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

	As of September 30, 2011				
	Level 1	Level 2	Level 3 (in millions)	Netting(2)	Total
<b>Fixed maturities, available for sale:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 14,866	\$ 66	\$	\$ 14,932
Obligations of U.S. states and their political subdivisions	0	2,981	0		2,981
Foreign government bonds	0	74,790	27		74,817
Corporate securities	12	124,531	1,208		125,751
Asset-backed securities	0	8,198	2,731		10,929
Commercial mortgage-backed securities	0	12,372	93		12,465
Residential mortgage-backed securities	0	10,217	20		10,237
<b>Subtotal</b>	<b>12</b>	<b>247,955</b>	<b>4,145</b>		<b>252,112</b>
<b>Trading account assets supporting insurance liabilities:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	278	9		287
Obligations of U.S. states and their political subdivisions	0	285	0		285
Foreign government bonds	0	648	0		648
Corporate securities	0	10,678	92		10,770
Asset-backed securities	0	968	350		1,318
Commercial mortgage-backed securities	0	2,316	4		2,320
Residential mortgage-backed securities	0	1,867	2		1,869
Equity securities	772	119	51		942
Short-term investments and cash equivalents	687	409	0		1,096
<b>Subtotal</b>	<b>1,459</b>	<b>17,568</b>	<b>508</b>		<b>19,535</b>
<b>Other trading account assets:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	72	0		72
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	2	46	0		48
Corporate securities	9	236	39		284
Asset-backed securities	0	606	67		673
Commercial mortgage-backed securities	0	91	29		120
Residential mortgage-backed securities	0	114	2		116
Equity securities	267	37	1,372		1,676
All other	14	14,234	161	(10,836)	3,573
<b>Subtotal</b>	<b>292</b>	<b>15,436</b>	<b>1,670</b>	<b>(10,836)</b>	<b>6,562</b>
Equity securities, available for sale	4,963	2,087	412		7,462
Commercial mortgage and other loans	0	120	96		216

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Other long-term investments	46	(15)	1,318		1,349
Short-term investments	4,490	3,051	0		7,541
Cash equivalents	2,065	8,903	0		10,968
Other assets	3	81	9	0	93
Subtotal excluding separate account assets	13,330	295,186	8,158	(10,836)	305,838
Separate account assets(1)	34,505	155,011	17,850		207,366
Total assets	\$ 47,835	\$ 450,197	\$ 26,008	\$ (10,836)	\$ 513,204
Future policy benefits	\$ 0	\$ 0	\$ 3,018	\$	\$ 3,018
Other liabilities	0	7,999	3	(8,001)	1
Total liabilities	\$ 0	\$ 7,999	\$ 3,021	\$ (8,001)	\$ 3,019

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	As of December 31, 2010(3)				Total
	Level 1	Level 2	Level 3 (in millions)	Netting(2)	
<b>Fixed maturities, available for sale:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 11,298	\$ 0	\$	\$ 11,298
Obligations of U.S. states and their political subdivisions	0	2,231	0		2,231
Foreign government bonds	0	50,212	27		50,239
Corporate securities	5	97,025	1,187		98,217
Asset-backed securities	0	9,238	1,753		10,991
Commercial mortgage-backed securities	0	11,907	130		12,037
Residential mortgage-backed securities	0	9,947	23		9,970
<b>Subtotal</b>	<b>5</b>	<b>191,858</b>	<b>3,120</b>		<b>194,983</b>
<b>Trading account assets supporting insurance liabilities:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	266	0		266
Obligations of U.S. states and their political subdivisions	0	182	0		182
Foreign government bonds	0	569	0		569
Corporate securities	0	10,036	82		10,118
Asset-backed securities	0	804	226		1,030
Commercial mortgage-backed securities	0	2,402	5		2,407
Residential mortgage-backed securities	0	1,345	18		1,363
Equity securities	935	200	4		1,139
Short-term investments and cash equivalents	606	91	0		697
<b>Subtotal</b>	<b>1,541</b>	<b>15,895</b>	<b>335</b>		<b>17,771</b>
<b>Other trading account assets:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	96	0		96
Obligations of U.S. states and their political subdivisions	118	0	0		118
Foreign government bonds	1	24	0		25
Corporate securities	14	269	35		318
Asset-backed securities	0	607	54		661
Commercial mortgage-backed securities	0	84	19		103
Residential mortgage-backed securities	0	163	18		181
Equity securities	393	142	26		561
All other	33	7,899	134	(5,904)	2,162
<b>Subtotal</b>	<b>559</b>	<b>9,284</b>	<b>286</b>	<b>(5,904)</b>	<b>4,225</b>
Equity securities, available for sale	4,458	2,928	355		7,741
Commercial mortgage and other loans	0	136	212		348
Other long-term investments	37	129	768		934
Short-term investments	3,307	1,669	0		4,976
Cash equivalents	2,475	6,661	0		9,136
Other assets	2,785	0	9		2,794

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Subtotal excluding separate account assets	15,167	228,560	5,085	(5,904)	242,908
Separate account assets(1)	43,273	148,711	15,792		207,776
Total assets	\$ 58,440	\$ 377,271	\$ 20,877	\$ (5,904)	\$ 450,684
Future policy benefits	\$ 0	\$ 0	\$ (204)	\$	\$ (204)
Other liabilities	1	6,736	3	(5,712)	1,028
Total liabilities	\$ 1	\$ 6,736	\$ (201)	\$ (5,712)	\$ 824

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

- (1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statement of Financial Position.
- (2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.
- (3) Includes reclassifications to conform to current period presentation.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below. Information regarding separate account assets is excluded as the risk associated with these assets is primarily borne by the customers and policyholders.

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

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may over-ride the information from the pricing service or broker with an internally-developed valuation. As of September 30, 2011 and December 31, 2010 over-rides on a net basis were not material. Internally-developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service over-rides, internally-developed valuations and non-binding broker quotes are generally included in Level 3 in the fair value hierarchy.

The fair value of private fixed maturities, which are primarily comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are not significant

to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

---

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

**Trading Account Assets** Trading account assets (including trading account assets supporting insurance liabilities) consist primarily of public corporate bonds, treasuries, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under Fixed Maturity Securities and below under Equity Securities and Derivative Instruments.

**Equity Securities** Equity securities consist principally of investments in common and preferred stock of publicly traded companies, perpetual preferred stock, privately traded securities, as well as common stock mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using valuation and discounted cash flow models that require a substantial level of judgment. In determining the fair value of certain privately traded equity securities the discounted cash flow model may also use unobservable inputs, which reflect the Company's assumptions about the inputs market participants would use in pricing the asset. Most privately traded equity securities are classified within Level 3. The fair values of common stock mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of preferred equity securities are based on prices obtained from independent pricing services. These prices are then validated for reasonableness against recently traded market prices. Accordingly, these securities are generally classified within Level 2 in the fair value hierarchy. Fair values of perpetual preferred stock based on observable market inputs are classified within Level 2. However, when prices from independent pricing services are based on non-binding broker quotes as the directly observable market inputs become unavailable, the fair values of perpetual preferred stock are classified as Level 3.

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

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

**Other Long-Term Investments** Other long-term investments include limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are considered investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities

include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds. The fair value of the feeder fund investments in master funds are generally determined by reference to the investments in the underlying master funds.

The fair value of investments in funds holding publicly traded equity securities are generally based on quoted prices in active markets for identical investments and are therefore reflected as Level 1. The fair value of investments in funds holding public fixed maturities and mutual funds are generally based on validated quotes from pricing services or observable data as described above, and are reflected in Level 2. The fair value of investments in funds that are subject to significant liquidity restrictions are reflected in Level 3.

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

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. The cash flow approach is supplemented with replacement cost estimates and comparable recent sales data when available. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in the fair value hierarchy.

**Derivative Instruments** Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, non-performance risk and liquidity as well as other factors. Liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity, and other specific attributes of the underlying derivative position. Fair values can also be affected by changes in estimates and assumptions including those related to counterparty behavior used in valuation models.

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

The majority of the Company's derivative positions are traded in the over-the-counter (OTC) derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models generally accepted in the financial services industry that use actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or

## Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

recent trading activity. The fair values of most OTC derivatives, including interest rate and cross currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and to-be-announced (or TBA) forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models' key assumptions include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, non-performance risk and volatility, and are classified as Level 2.

---

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

OTC derivative contracts are executed under master netting agreements with counterparties with a Credit Support Annex, or CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties, should either party suffer a credit rating deterioration. The vast majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's non-performance risk, the Company incorporates additional spreads over London Interbank Offered Rate (LIBOR) into the discount rate used in determining the fair value of OTC derivative assets and liabilities. However, the non-performance risk adjustment is applied only to the uncollateralized portion of the OTC derivative assets and liabilities, after consideration of the impacts of two-way collateral posting. Most OTC derivative contract inputs have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. The Company's policy is to use mid-market pricing in determining its best estimate of fair value and classify these derivative contracts as Level 2.

Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured products. These derivatives are valued based upon models with some significant unobservable market inputs or inputs from less actively traded markets. The fair values of first-to-default credit basket swaps are derived from relevant observable inputs such as: individual credit default spreads, interest rates, recovery rates and unobservable model-specific input values such as correlation between different credits within the same basket. Look-back equity options and other structured options and derivatives are valued using simulation models such as the Monte Carlo technique. The input values for look-back equity options are derived from observable market indices such as interest rates, dividend yields, equity indices as well as unobservable model-specific input values such as certain volatility parameters. Level 3 methodologies are validated through periodic comparison of the Company's fair values to broker-dealer values.

**Cash Equivalents and Short-Term Investments** Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Money market instruments are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in the Cash Equivalents and Short-term Investments category are typically not traded in active markets; however, their fair values are based on market observable inputs and, accordingly, these investments have been classified within Level 2 in the fair value hierarchy.

**Other Assets and Other Liabilities** Other assets carried at fair value include U.S. Treasury bills held within the global commodities group whose fair values are based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. As a result, they are reported in the Level 1 hierarchy. Included in other liabilities are various derivatives contracts executed within the global commodities group, including exchange-traded futures, foreign currency and commodity contracts. The fair values of these derivative instruments are determined consistent with similar derivative instruments described above under Derivative Instruments.

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



---

**Table of Contents**

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

The Company is also required to incorporate the market-perceived risk of its own non-performance in the valuation of the embedded derivatives associated with its optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the financial strength ratings of the Company's insurance subsidiaries in the valuation of the liability or asset appropriately takes into consideration the Company's own risk of non-performance. To reflect the market's perception of its non-performance risk, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with its optional living benefit features. The additional spread over LIBOR is determined taking into consideration publicly available information relating to the financial strength of the Company's insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. The Company adjusts these credit spreads to remove any liquidity risk premium. The additional spread over LIBOR incorporated into the discount rate as of September 30, 2011 generally ranged from 125 to 250 basis points for the portion of the interest rate curve most relevant to these liabilities. This additional spread is applied at an individual contract level and only to those embedded derivatives in a liability position and not to those in an asset position.

Other significant inputs to the valuation models for the embedded derivatives associated with the optional living benefit features of the Company's variable annuity products include capital market assumptions, such as interest rate and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience and give consideration to any observable market data, including market transactions such as acquisitions and reinsurance transactions. Since many of the assumptions utilized in the valuation of the embedded derivatives associated with the Company's optional living benefit features are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy.

Significant declines in interest rates and the impact of equity market declines on account values in 2011 drove increases in the embedded derivative liabilities associated with the optional living benefit features of the Company's variable annuity products as of September 30, 2011. These factors, as well as widening of the spreads used in valuing non-performance risk, which reflect the financial strength ratings of our insurance subsidiaries, also drove offsetting increases in the adjustment to incorporate the market-perceived risk of our own non-performance in the valuation of the embedded derivative. As of September 30, 2011, the fair value of the embedded derivatives associated with the optional living benefit features of the Individual Annuities segment, before the adjustment for the market's perception of our own non-performance risk, was a net liability of \$8,730 million. This net liability was comprised of \$8,867 million of embedded derivative liabilities net of \$137 million of assets. At September 30, 2011, our adjustment for the market's perception of our own non-performance risk resulted in a \$5,732 million cumulative decrease to the embedded derivative liability for the Individual Annuities segment.

**Transfers between Levels 1 and 2** Periodically there are transfers between Level 1 and Level 2 for foreign common stocks held in the Company's Separate Account. In certain periods, an adjustment may be made for the fair value of these assets beyond the quoted market price to reflect events that occurred between the close of foreign trading markets and the close of U.S. trading markets for that day. If an adjustment is made in the



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

reporting period, these Separate Accounts are classified as Level 2. When an adjustment is not made, they are classified as Level 1. This type of adjustment was made at September 30, 2011. As a result, during the three and nine months ended September 30, 2011, \$2.6 billion of transfers from Level 1 to Level 2 occurred for these Separate Account assets. During the three months ended September 30, 2010, \$2.8 billion of separate account assets transferred from Level 2 to Level 1. For the nine months ended September 30, 2010, the net transfers from Level 2 to Level 1 for these types of separate account assets was \$3.4 billion.

**Changes in Level 3 assets and liabilities** The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2011, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2011 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2011.

	Three Months Ended September 30, 2011					
	Fixed Maturities Available For Sale- U.S. Government Authorities	Fixed Maturities Available For Sale- Foreign Government Bonds	Fixed Maturities Available For Sale- Corporate Securities	Fixed Maturities Available For Sale- Asset- Backed Securities	Fixed Maturities Available For Sale- Commercial Mortgage- Backed Securities	Fixed Maturities Available For Sale- Residential Mortgage- Backed Securities
	(in millions)					
Fair Value, beginning of period	\$ 0	\$ 27	\$ 1,278	\$ 2,933	\$ 105	\$ 20
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	(6)	6	0	0
Asset management fees and other income	0	0	0	0	0	0
Included in other comprehensive income (loss)	0	0	(10)	(34)	(8)	(1)
Net investment income	0	0	2	5	(3)	0
Purchases	66	0	11	234	0	1
Sales	0	0	(24)	(80)	(4)	(1)
Issuances	0	0	28	0	0	0
Settlements	0	0	(40)	(100)	(3)	1
Foreign currency translation	0	0	7	48	6	0
Other(1)	0	0	0	0	0	0
Transfers into Level 3(2)	0	0	49	17	5	0
Transfers out of Level 3(2)	0	0	(87)	(298)	(5)	0
Fair Value, end of period	\$ 66	\$ 27	\$ 1,208	\$ 2,731	\$ 93	\$ 20
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):						
Included in earnings:						
Realized investment gains (losses), net	\$ 0	\$ 0	\$ (3)	\$ 2	\$ 1	\$ 0
Asset management fees and other income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Included in other comprehensive income (loss)	\$ 0	\$ 0	\$ (9)	\$ (33)	\$ (9)	\$ 0



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2011				
	Trading Account Assets Supporting Insurance Liabilities- U.S. Government Authorities	Trading Account Assets Supporting Insurance Liabilities- Corporate Securities	Trading Account Assets Supporting Insurance Liabilities- Asset- Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Commercial Mortgage- Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Residential Mortgage- Backed Securities
	(in millions)				
Fair Value, beginning of period	\$ 0	\$ 84	\$ 410	\$ 14	\$ 2
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	(1)	(4)	0	0
Net investment income	0	0	1	0	0
Purchases	9	0	16	0	0
Sales	0	0	0	0	0
Issuances	0	0	0	0	0
Settlements	0	(4)	(35)	0	0
Foreign currency translation	0	0	0	0	0
Other(1)	0	0	0	0	0
Transfers into Level 3(2)	0	15	0	0	0
Transfers out of Level 3(2)	0	(2)	(38)	(10)	0
Fair Value, end of period	\$ 9	\$ 92	\$ 350	\$ 4	\$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Asset management fees and other income	\$ 0	\$ (2)	\$ (4)	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2011				
	Trading Account Assets Supporting Insurance Liabilities- Equity Securities	Other Trading Account Assets- Corporate Securities	Other Trading Account Assets- Asset- Backed Securities (in millions)	Other Trading Account Assets- Commercial Mortgage- Backed Securities	Other Trading Account Assets- Residential Mortgage- Backed Securities
Fair Value, beginning of period	\$ 58	\$ 40	\$ 77	\$ 18	\$ 15
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	(7)	2	(7)	(1)	(3)
Net investment income	0	0	1	0	(1)
Purchases	1	1	0	0	0
Sales	(2)	(3)	(6)	(6)	4
Issuances	0	0	0	0	0
Settlements	0	0	(2)	0	0
Foreign currency translation	1	0	4	2	1
Other(1)	0	(1)	1	14	(14)
Transfers into Level 3(2)	0	0	0	3	(1)
Transfers out of Level 3(2)	0	0	(1)	(1)	1
Fair Value, end of period	\$ 51	\$ 39	\$ 67	\$ 29	\$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Asset management fees and other income	\$ (7)	\$ 1	\$ (7)	\$ (4)	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	<b>Three Months Ended September 30, 2011</b>				
	<b>Other Trading Account Assets- Equity Securities</b>	<b>Other Trading Account Assets- All Other Activity</b>	<b>Equity Securities Available for Sale (in millions)</b>	<b>Commercial Mortgage and Other Loans</b>	<b>Other Long-term Investments</b>
Fair Value, beginning of period	\$ 165	\$ 94	\$ 1,661	\$ 144	\$ 1,230
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	74	(2)	9	1
Asset management fees and other income	(67)	0	0	0	(12)
Included in other comprehensive income (loss)	0	0	14	0	0
Net investment income	0	0	0	0	(11)
Purchases	5	0	4	0	103
Sales	(28)	0	5	0	(1)
Issuances	0	0	0	0	0
Settlements	(13)	(7)	(40)	(57)	(1)
Foreign currency translation	33	0	50	0	9
Other(1)	1,277	0	(1,280)	0	0
Transfers into Level 3(2)	0	0	(2)	0	0
Transfers out of Level 3(2)	0	0	2	0	0
Fair Value, end of period	\$ 1,372	\$ 161	\$ 412	\$ 96	\$ 1,318
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 74	\$ (3)	\$ 8	\$ 0
Asset management fees and other income	\$ (73)	\$ 1	\$ 0	\$ 0	\$ (20)
Included in other comprehensive income (loss)	\$ 0	\$ 0	\$ 18	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2011			
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities
	(in millions)			
Fair Value, beginning of period	\$ 9	\$ 17,536	\$ 423	\$ (2)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	(3,310)	0
Asset management fees and other income	0	0	0	0
Interest credited to policyholders' account balances	0	699	0	0
Purchases	0	319	(130)	0
Sales	0	(925)	0	0
Issuances	0	1	0	0
Settlements	0	393	(1)	(1)
Transfers into Level 3(2)	0	15	0	0
Transfers out of Level 3(2)	0	(188)	0	0
Fair Value, end of period	\$ 9	\$ 17,850	\$ (3,018)	\$ (3)

Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):

Included in earnings:				
Realized investment gains (losses), net	\$ 0	\$ 0	\$ (3,312)	\$ (1)
Asset management fees and other income	\$ 0	\$ 0	\$ 0	\$ 0
Interest credited to policyholders' account balances	\$ 0	\$ 452	\$ 0	\$ 0

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

**Transfers** Transfers out of Level 3 were typically due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate. Transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized.

	Nine Months Ended September 30, 2011					
	Fixed Maturities Available For Sale- U.S. Government Authorities	Fixed Maturities Available For Sale- Foreign Government Bonds	Fixed Maturities Available For Sale- Corporate Securities	Fixed Maturities Available For Sale- Asset- Backed Securities	Fixed Maturities Available For Sale- Commercial Mortgage- Backed Securities	Fixed Maturities Available For Sale- Residential Mortgage- Backed Securities
	(in millions)					
Fair Value, beginning of period	\$ 0	\$ 27	\$ 1,187	\$ 1,753	\$ 130	\$ 23
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	(33)	32	(35)	0
Asset management fees and other income	0	0	0	0	0	0
Included in other comprehensive income (loss)	0	0	(12)	0	7	(1)
Net investment income	0	0	8	20	2	0
Purchases	66	0	435	1,239	5	1
Sales	0	0	(89)	(413)	(20)	(1)
Issuances	0	0	32	0	0	0
Settlements	0	0	(278)	(237)	(36)	(1)
Foreign currency translation	0	0	10	64	9	0
Other(1)	0	0	146	502	31	(1)
Transfers into Level 3(2)	0	0	234	250	5	0
Transfers out of Level 3(2)	0	0	(432)	(479)	(5)	0
Fair Value, end of period	\$ 66	\$ 27	\$ 1,208	\$ 2,731	\$ 93	\$ 20
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):						
Included in earnings:						
Realized investment gains (losses), net	\$ 0	\$ 0	\$ (39)	\$ 6	\$ (40)	\$ 0
Asset management fees and other income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Included in other comprehensive income (loss)	\$ 0	\$ 0	\$ (6)	\$ 10	\$ 15	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Nine Months Ended September 30, 2011				
	Trading Account Assets Supporting Insurance Liabilities- U.S. Government Authorities	Trading Account Assets Supporting Insurance Liabilities- Corporate Securities	Trading Account Assets Supporting Insurance Liabilities- Asset- Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Commercial Mortgage- Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Residential Mortgage- Backed Securities
	(in millions)				
Fair Value, beginning of period	\$ 0	\$ 82	\$ 226	\$ 5	\$ 18
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	(2)	0	0	0
Net investment income	0	0	3	0	0
Purchases	9	49	269	10	0
Sales	0	(11)	(23)	0	0
Issuances	0	1	0	0	0
Settlements	0	(35)	(82)	(1)	(1)
Foreign currency translation	0	0	0	0	0
Other(1)	0	0	15	0	(15)
Transfers into Level 3(2)	0	25	0	0	0
Transfers out of Level 3(2)	0	(17)	(58)	(10)	0
Fair Value, end of period	\$ 9	\$ 92	\$ 350	\$ 4	\$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Asset management fees and other income	\$ 0	\$ (2)	\$ 0	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Nine Months Ended September 30, 2011				
	Trading Account Assets Supporting Insurance Liabilities- Equity Securities	Other Trading Account Assets- Corporate Securities	Other Trading Account Assets- Asset- Backed Securities (in millions)	Other Trading Account Assets- Commercial Mortgage- Backed Securities	Other Trading Account Assets- Residential Mortgage- Backed Securities
Fair Value, beginning of period	\$ 4	\$ 35	\$ 54	\$ 19	\$ 18
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	(6)	2	0	4	0
Net investment income	0	0	2	1	0
Purchases	5	9	0	0	0
Sales	(29)	(7)	(16)	(12)	(2)
Issuances	0	0	0	0	0
Settlements	0	0	(8)	(2)	(1)
Foreign currency translation	1	0	6	2	1
Other(1)	0	(1)	1	14	(14)
Transfers into Level 3(2)	76	1	39	5	0
Transfers out of Level 3(2)	0	0	(11)	(2)	0
Fair Value, end of period	\$ 51	\$ 39	\$ 67	\$ 29	\$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Asset management fees and other income	\$ (6)	\$ 2	\$ (3)	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Nine Months Ended September 30, 2011				
	Other Trading Account Assets- Equity Securities	Other Trading Account Assets- All Other Activity	Equity Securities Available for Sale (in millions)	Commercial Mortgage and Other Loans	Other Long-term Investments
Fair Value, beginning of period	\$ 26	\$ 134	\$ 355	\$ 212	\$ 768
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	37	(17)	15	5
Asset management fees and other income	(54)	4	0	0	55
Included in other comprehensive income (loss)	0	0	42	0	0
Net investment income	0	0	0	0	(10)
Purchases	6	0	45	0	236
Sales	(30)	0	(40)	0	(7)
Issuances	0	0	0	0	0
Settlements	(15)	(14)	(41)	(131)	(8)
Foreign currency translation	36	0	79	0	12
Other(1)	1,277	0	(831)	0	267
Transfers into Level 3(2)	126	0	822	0	0
Transfers out of Level 3(2)	0	0	(2)	0	0
Fair Value, end of period	\$ 1,372	\$ 161	\$ 412	\$ 96	\$ 1,318
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 37	\$ (25)	\$ 15	\$ 2
Asset management fees and other income	\$ (59)	\$ 4	\$ 0	\$ 0	\$ 16
Included in other comprehensive income (loss)	\$ 0	\$ 0	\$ 55	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Nine Months Ended September 30, 2011			
	Other Assets	Separate Account Assets(4)	Future Policy Benefits (in millions)	Other Liabilities
Fair Value, beginning of period	\$ 9	\$ 15,792	\$ 204	\$ (3)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	(2,854)	(7)
Asset management fees and other income	0	0	0	0
Interest credited to policyholders' account balances	0	2,334	0	0
Purchases	0	2,121	(366)	0
Sales	0	(1,062)	0	0
Issuances	0	3	0	0
Settlements	0	(861)	(2)	7
Transfers into Level 3(2)	0	161	0	0
Transfers out of Level 3(2)	0	(638)	0	0
Fair Value, end of period	\$ 9	\$ 17,850	\$ (3,018)	\$ (3)

Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):

Included in earnings:				
Realized investment gains (losses), net	\$ 0	\$ 0	\$ (2,864)	\$ (8)
Asset management fees and other income	\$ 0	\$ 0	\$ 0	\$ 0
Interest credited to policyholders' account balances	\$ 0	\$ 1,605	\$ 0	\$ 0

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

**Transfers** As a part of an ongoing monitoring assessment of pricing inputs to ensure appropriateness of the level classification in the fair value hierarchy the Company may reassign level classification from time to time. As a result of such a review, in the first quarter of 2011, it was determined that the pricing inputs for perpetual preferred stocks provided by third party pricing services were primarily based on non-binding broker quotes which could not always be verified against directly observable market information. Consequently, perpetual preferred stocks were transferred into Level 3 within the fair value hierarchy. This represents the majority of the transfers into Level 3 for Equity Securities Available for Sale, Trading Account Assets Supporting Insurance Liabilities - Equity Securities and Other Trading Account Assets - Equity Securities. Other transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized. Transfers out of Level 3 were primarily due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate.



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2010, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2010 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2010.

	Three Months Ended September 30, 2010				
	Fixed Maturities Available For Sale- Foreign Government Bonds	Fixed Maturities Available For Sale- Corporate Securities	Fixed Maturities Available For Sale- Asset- Backed Securities (in millions)	Fixed Maturities Available For Sale- Commercial Mortgage- Backed Securities	Fixed Maturities Available For Sale- Residential Mortgage- Backed Securities
Fair Value, beginning of period	\$ 45	\$ 843	\$ 1,244	\$ 170	\$ 25
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(4)	4	4	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	3	21	28	0	0
Net investment income	0	2	6	1	0
Purchases, sales, issuances and settlements	0	(116)	456	(37)	(1)
Foreign currency translation	0	1	8	11	0
Other(1)	0	0	0	0	0
Transfers into Level 3(2)	0	32	0	(3)	0
Transfers out of Level 3(2)	(16)	(42)	(63)	(3)	0
Fair Value, end of period	\$ 32	\$ 737	\$ 1,683	\$ 143	\$ 24
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ (8)	\$ 3	\$ 0	\$ 0
Asset management fees and other income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Included in other comprehensive income (loss)	\$ 3	\$ 26	\$ 28	\$ 3	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2010			
	Trading Account Assets Supporting Insurance Liabilities- Corporate Securities	Trading Account Assets Supporting Insurance Liabilities- Asset- Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Commercial Mortgage- Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Residential Mortgage- Backed Securities
	(in millions)			
Fair Value, beginning of period	\$ 68	\$ 113	\$ 5	\$ 20
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	0	0
Asset management fees and other income	(2)	3	0	0
Net investment income	0	0	0	0
Purchases, sales, issuances and settlements	(21)	73	0	(1)
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	(3)	(13)	0	0
Fair Value, end of period	\$ 42	\$ 176	\$ 5	\$ 19
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	\$ 0	\$ 0	\$ 0	\$ 0
Asset management fees and other income	\$ (2)	\$ 3	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2010				
	Trading Account Assets Supporting Insurance Liabilities- Equity Securities	Other Trading Account Assets- Corporate Securities	Other Trading Account Assets- Asset- Backed Securities (in millions)	Other Trading Account Assets- Commercial Mortgage- Backed Securities	Other Trading Account Assets- Residential Mortgage- Backed Securities
Fair Value, beginning of period	\$ 5	\$ 34	\$ 55	\$ 29	\$ 23
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	0	3	(1)	2
Net investment income	0	0	1	0	0
Purchases, sales, issuances and settlements	(1)	(1)	(11)	(11)	(3)
Foreign currency translation	0	0	3	2	1
Other(1)	0	0	0	0	0
Transfers into Level 3(2)	0	0	14	(1)	0
Transfers out of Level 3(2)	0	(2)	(5)	0	(3)
Fair Value, end of period	\$ 4	\$ 31	\$ 60	\$ 18	\$ 20
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Asset management fees and other income	\$ 0	\$ 0	\$ 1	\$ 0	\$ 1

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2010				
	Other Trading Account Assets- Equity Securities	Other Trading Account Assets- All Other Activity	Equity Securities Available for Sale (in millions)	Commercial Mortgage and Other Loans	Other Long-term Investments
Fair Value, beginning of period	\$ 26	\$ 266	\$ 352	\$ 296	\$ 763
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(56)	1	13	(7)
Asset management fees and other income	0	0	0	0	(1)
Included in other comprehensive income (loss)	0	0	(12)	0	0
Net investment income	0	0	0	0	1
Purchases, sales, issuances and settlements	1	(7)	(15)	(1)	0
Foreign currency translation	1	0	21	0	0
Transfers into Level 3(2)	0	0	0	0	0
Transfers out of Level 3(2)	0	0	0	0	0
Fair Value, end of period	\$ 28	\$ 203	\$ 347	\$ 308	\$ 756
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ (57)	\$ 0	\$ 13	\$ (7)
Asset management fees and other income	\$ 0	\$ (1)	\$ 0	\$ 0	\$ 16
Included in other comprehensive income (loss)	\$ 0	\$ 0	\$ (12)	\$ 0	\$ 0

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

	Three Months Ended September 30, 2010				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits (in millions)	Long-term Debt	Other Liabilities
Fair Value, beginning of period	\$ 21	\$ 13,994	\$ (989)	\$ 0	\$ (6)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	(221)	0	2
Asset management fees and other income	(1)	0	0	0	0
Interest credited to policyholders' account balances	0	633	0	0	0
Purchases, sales, issuances and settlements	1	167	(81)	0	2
Transfers into Level 3(2)	0	6	0	0	0
Transfers out of Level 3(2)	0	(58)	0	0	0
Fair Value, end of period	\$ 21	\$ 14,742	\$ (1,291)	\$ 0	\$ (2)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ 0	\$ (230)	\$ 0	\$ 2
Asset management fees and other income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Interest credited to policyholders' account balances	\$ 0	\$ 315	\$ 0	\$ 0	\$ 0
Included in other comprehensive income (loss)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Other primarily represents reclasses of certain assets between reporting categories.

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

(3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

**Transfers** Transfers out of Level 3 were typically due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate. Transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized.

	Nine Months Ended September 30, 2010				
	Fixed Maturities Available For Sale-Foreign Government Bonds	Fixed Maturities Available For Sale- Corporate Securities	Fixed Maturities Available For Sale-Asset- Backed Securities (in millions)	Fixed Maturities Available For Sale- Commercial Mortgage- Backed Securities	Fixed Maturities Available For Sale- Residential Mortgage- Backed Securities
Fair Value, beginning of period	\$ 47	\$ 902	\$ 6,363	\$ 305	\$ 104
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(27)	(55)	(128)	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	2	82	126	37	0
Net investment income	0	9	(25)	(1)	0
Purchases, sales, issuances and settlements	0	(253)	202	(46)	(4)
Foreign currency translation	0	0	1	2	0
Other(1)	0	9	1	48	(48)
Transfers into Level 3(2)	0	162	129	8	2
Transfers out of Level 3(2)	(17)	(147)	(5,059)	(82)	(30)
Fair Value, end of period	\$ 32	\$ 737	\$ 1,683	\$ 143	\$ 24
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	\$ 0	\$ (30)	\$		