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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

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

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

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

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

Table of Contents

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

PART I - FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

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

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

1

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

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

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

Basis of Presentation

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

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

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

Use of Estimates

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Reclassifications

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

Out of Period Adjustments

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

8

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

10

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Derivative Financial Instruments

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Adoption of New Accounting Pronouncements

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Future Adoption of New Accounting Pronouncements

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

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

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

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of The Hartford s Individual Life Insurance Business

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Sale of Wealth Management Solutions Business

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

Acquisition of UniAsia Life Assurance

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

Discontinued Operations

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

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

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

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

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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, 2013, are as follows:

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

(1) Excludes notes with amortized cost of $1,250 million (fair value, $1,314 million) which have been offset with the associated payables under a netting agreement.

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

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

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

20

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Trading Account Assets Supporting Insurance Liabilities

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

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

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

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income , was $63 million and $288 million during the three months ended September 30, 2013 and 2012, respectively, and ($430) million and $568 million during the nine months ended September 30, 2013 and 2012, respectively.

Other Trading Account Assets

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

	September 30, 2013	December 31, 2012

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Concentrations of Financial Instruments

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

As of both September 30, 2013 and December 31, 2012, the Company s exposure to concentrations of credit risk of single issuers greater than 10% of the Company s stockholders equity included securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Commercial Mortgage and Other Loans

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

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

(1) Includes loans held at fair value.

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

23

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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