PRUDENTIAL FINANCIAL INC
Form 10-K
February 22, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

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

COMMISSION FILE NUMBER 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common Stock, Par Value $.01 (including Shareholder Protection Rights)	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

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 Act). Yes ¨ No x

As of June 30, 2012, the aggregate market value of the registrant s Common Stock (par value $0.01) held by non-affiliates of the registrant was $22.47 billion and 464 million shares of the Common Stock were outstanding. As of January 31, 2013, 463 million shares of the registrant s Common Stock (par value $0.01) were outstanding. As of June 30, 2012, and January 31, 2013, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding and held by non-affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the Registrant s Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 14, 2013, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2012.

Table of Contents

TABLE OF CONTENTS

Forward-Looking Statements

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

Table of Contents

Throughout this Annual Report on Form 10-K, 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

ITEM 1. BUSINESS

Overview

Prudential Financial, Inc., a financial services leader with approximately $1.060 trillion of assets under management as of December 31, 2012, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds and investment management. We offer these products and services to individual and institutional customers through proprietary and third party distribution networks. Our principal executive offices are located in Newark, New Jersey.

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses comprises our U.S. Retirement Solutions and Investment Management division, U.S. Individual Life and Group Insurance division, and International Insurance division as well as our Corporate and Other operations. The Closed Block Business comprises the assets and related liabilities of the Closed Block described below and certain related assets and liabilities.

We maintain diversified investment portfolios in our insurance companies to support our liabilities to customers in our Financial Services Businesses and the Closed Block Business, as well as our other general liabilities. Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. As of December 31, 2012, the general account investment portfolio totaled $330.7 billion for the Financial Services Businesses and $67.9 billion for the Closed Block Business. For additional information on our investment portfolio see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments and Note 4 to the Consolidated Financial Statements.

Prudential Financial has two classes of common stock outstanding. The Common Stock, which is publicly traded (NYSE:PRU), reflects the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and does not trade on any exchange, reflects the performance of the Closed Block Business. However, the market value of the Common Stock may not reflect solely the performance of the Financial Services Businesses.

Demutualization and Separation of the Businesses

Demutualization

On December 18, 2001, Prudential Insurance converted from a mutual life insurance company owned by its policyholders to a stock life insurance company and became an indirect, wholly-owned subsidiary of Prudential Financial. The demutualization was carried out under Prudential Insurance s Plan of Reorganization, dated as of December 15, 2000, as amended, which we refer to as the Plan of Reorganization. On the date of demutualization, eligible policyholders, as defined in the Plan of Reorganization, received shares of Prudential Financial s Common Stock or the right to receive cash or policy credits, which are increases in policy values or increases in other policy benefits, upon the extinguishment of all membership interests in Prudential Insurance. In addition, on the date of demutualization, Prudential Holdings, LLC, a wholly-owned subsidiary of Prudential Financial that owns the capital stock of Prudential Insurance, issued $1.75 billion in senior secured notes, which we refer to as the IHC debt.

Table of Contents

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations of holders of participating individual life insurance policies and annuities included in the Closed Block for future policy dividends after demutualization by allocating assets that will be used for payment of benefits, including policyholder dividends, on these policies. See Note 12 to the Consolidated Financial Statements and Closed Block Business below for more information on the Closed Block.

Separation of the Businesses

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business for financial statement purposes. For a discussion of the operating results of the Financial Services Businesses and the Closed Block Business, see Management s Discussion and Analysis of Financial Condition and Results of Operations. See Financial Services Businesses below for a more detailed discussion of the divisions comprising the Financial Services Businesses. The Closed Block Business comprises the assets and related liabilities of the Closed Block and certain other assets and liabilities, including the IHC debt. We refer to the Financial Services Businesses and the Closed Block Business collectively as the Businesses.

The following diagram reflects the allocation of Prudential Financial s consolidated assets and liabilities between the Financial Services Businesses and the Closed Block Business:

There is no legal separation of the two Businesses. The foregoing allocation of assets and liabilities does not require Prudential Financial, Prudential Insurance, any of their subsidiaries or the Closed Block to transfer any specific assets or liabilities to a separate legal entity. Financial results of the Closed Block Business, including debt service on the IHC debt, will affect Prudential Financial s consolidated results of operations, financial position and borrowing costs. In addition, any net losses of the Closed Block Business, and any dividends or distributions on, or repurchases of, the Class B Stock, will reduce the assets of Prudential Financial legally available for dividends on the Common Stock. Accordingly, you should read the financial information for the Financial Services Businesses together with the consolidated financial information of Prudential Financial.

In order to separately reflect the financial performance of the Financial Services Businesses and the Closed Block Business since the date of demutualization, we have allocated all our assets and liabilities and earnings between the two Businesses, and we account for them as if they were separate legal entities. All assets and liabilities of Prudential Financial and its subsidiaries not included in the Closed Block Business constitute the assets and liabilities of the Financial Services Businesses. Assets and liabilities allocated to the Closed Block Business are those that we consider appropriate to operate that business. The Closed Block Business consists principally of:

- within Prudential Insurance, the Closed Block Assets, Surplus and Related Assets (see below), deferred policy acquisition costs and other assets in respect of the policies included in the Closed Block and, with respect to liabilities, the Closed Block Liabilities;

within Prudential Holdings, LLC, dividends received from Prudential Insurance, certain tax benefits and reinvestment proceeds thereof, the principal amount of the IHC debt, related unamortized debt issuance costs and hedging activities, and a guaranteed investment contract; and

within Prudential Financial, the Class B stock, dividends received from Prudential Holdings, LLC and any reinvestment proceeds thereof, and other liabilities of Prudential Financial, in each case attributable the Closed Block Business.

The Closed Block Assets consist of (1) those assets initially allocated to the Closed Block including fixed maturities, equity securities, commercial loans and other long- and short-term investments; (2) cash flows from such assets; (3) assets resulting from the reinvestment of such cash flows; (4) cash flows from the Closed Block Policies; and (5) assets resulting from the investment of cash flows from the Closed Block Policies. The Closed Block Assets include policy loans, accrued interest on any of the foregoing assets and premiums due on the Closed Block Policies. The Closed Block Liabilities are Closed Block Policies and other liabilities of the Closed Block associated with the Closed Block Assets. The Closed Block Assets and Closed Block Liabilities are supported by additional assets held outside of the Closed Block by Prudential Insurance, to provide additional capital with respect to the Closed Block Policies, as well as invested assets held outside of the Closed Block that initially represented the difference between the Closed Block Assets and the sum of the Closed Block Liabilities and the interest maintenance reserve, which collectively we refer to as the Surplus and Related Assets.

On the date of demutualization, the majority of the net proceeds from the issuances of the Class B Stock and the IHC debt was allocated to our Financial Services Businesses. We believe that the proceeds from the issuances of the Class B Stock and IHC debt allocated to the Financial Services Businesses reflected capital in excess of that necessary to support the Closed Block Business and that the Closed Block Business as established has sufficient assets and cash flows to service the IHC debt. The Closed Block Business was financially leveraged through the issuance of the IHC debt, and dividends on the Class B Stock are subject to prior servicing of the IHC debt.

Within the Closed Block Business, the assets and cash flows attributable to the Closed Block accrue solely to the benefit of the Closed Block policyholders through policyholder dividends after payment of benefits, expenses and taxes. The Surplus and Related Assets accrue to the benefit of the holders of Class B Stock. The earnings on, and distribution of, the Surplus and Related Assets over time will be the source or measure of payment of the interest and principal of the IHC debt and of dividends on the Class B Stock. The earnings of the Closed Block are reported as part of the Closed Block Business, although no cash flows or assets of the Closed Block accrue to the benefit of the holders of Common Stock or Class B Stock. The Closed Block Assets are not available to service interest or principal of the IHC debt or dividends on the Class B Stock.

Inter-Business Transfers and Allocation Policies

Prudential Financial s Board of Directors has adopted certain policies relating to payments, loans, capital contributions, transfers of assets and other transactions between the Closed Block Business and the Financial Services Businesses; and the allocation between the two Businesses of tax costs and benefits. These inter-business transfer and allocation policies are set forth in Exhibit 4.3 to this Annual Report. In the future, the Board of Directors may modify, rescind or add to any of these policies, subject to the Board of Directors general fiduciary duties. In addition, we have agreed with the investors in the Class B Stock and the insurer of the IHC debt that, in most instances, the Board of Directors may not change these policies without their consent.

Cash payments for administrative purposes from the Closed Block Business to the Financial Services Businesses are based on formulas that initially approximated the actual expenses incurred by the Financial Services Businesses to provide such services based on insurance and policies in force and statutory cash premiums. Administrative expenses recorded by the Closed Block Business, and the related income tax effect, are based upon actual expenses incurred under accounting principles generally accepted in the U.S., or U.S. GAAP, utilizing the Company s methodology for the allocation of such expenses. Any difference in the cash amount transferred and actual expenses incurred as reported under U.S. GAAP will be recorded, on an after-tax basis at the applicable current rate, as direct adjustments to the respective equity balances of the Closed Block Business and the Financial Services Businesses, without the issuance of shares of either Business to the other Business. This direct equity adjustment modifies earnings available to each class of common stock for earnings per share purposes. Internal investment expenses recorded and paid by the Closed Block Business, and the related income tax effect, are based upon actual expenses incurred under U.S. GAAP and in accordance with internal arrangements governing recordkeeping, bank fees, accounting and reporting, asset allocation, investment policy and planning and analysis.

Financial Services Businesses

The Financial Services Businesses are comprised of three divisions, containing six segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division is comprised of the Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division is comprised of the Individual Life and Group Insurance segments. The International Insurance division is comprised of the International Insurance segment.

See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets by segment of the Financial Services Businesses.

U.S. Retirement Solutions and Investment Management Division

The U.S. Retirement Solutions and Investment Management division conducts its business through the Individual Annuities, Retirement and Asset Management segments.

Individual Annuities

Our Individual Annuities segment manufactures and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent market. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent in the U.S. market. We focus on innovative product design coupled with our risk management strategies, as discussed below.

Competition

We compete with other providers of retirement savings and accumulation products, including large, well-established insurance and financial services companies, primarily based on our innovative product features and our risk management strategies. We also compete based on brand recognition, the breadth of our distribution platform and our customer service capabilities.

In recent years, we have experienced a dynamic competitive landscape, prompted by challenging global financial markets. During 2012, we implemented variable annuity product modifications to scale back benefits, increase pricing and close a share class, and we suspended additional customer deposits for variable annuities with certain optional living benefit riders that were no longer being offered. Similarly, certain of our competitors who had previously introduced more aggressive product designs and pricing, have now taken actions to implement modifications which scale back benefits or to exit, or limit their presence in, the variable annuity marketplace. Despite these actions, our contract retention has been strong, and we believe our product offerings are competitive relative to substitute products currently available in the marketplace.

Products

We offer variable annuities that provide our customers with tax-deferred asset accumulation together with a base death benefit and a suite of optional guaranteed death and living benefits. The benefit features contractually guarantee the contractholder a return of no less than (1) total deposits made to the contract less any partial withdrawals (return of net deposits), (2) total deposits made to the contract less any partial withdrawals plus a minimum return (minimum return), and/or (3) the highest contract value on a specified date minus any withdrawals (contract value). We currently offer guarantees that are payable in the event of death, and withdrawal and income living benefits payable during specified periods. Our current optional living benefits guarantee includes, among other features, the ability to make withdrawals based on the highest daily contract value plus a minimum return, credited for a period of time. This guaranteed contract value is a notional amount

Table of Contents

that forms the basis for determination of periodic withdrawals for the life of the contractholder, and cannot be accessed as a lump-sum surrender value. Our current optional living benefits can also be purchased with a companion optional death benefit, also based on a highest daily contract value. Certain inforce contracts include guaranteed benefits which are not currently offered, such as annuitization benefits and benefits payable at specified dates during the accumulation period.

Our variable annuity investment options provide our customers with the opportunity to invest in proprietary and non-proprietary mutual funds, frequently under asset allocation programs, and fixed-rate accounts. The investments made by customers in the proprietary and non-proprietary mutual funds generally represent separate account interests that provide a return linked to an underlying investment portfolio. The fixed-rate accounts that are invested in the general account are credited with interest at rates we determine, subject to certain minimums. We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine, subject to certain contractual minimums. Certain investments made in the fixed-rate accounts of our variable annuities and certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity.

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility, contractholder longevity/mortality, timing of annuitization and withdrawals, withdrawal efficiency and contract lapses. The return we realize from our variable annuity contracts will vary based on the extent of the differences between our actual experience and the assumptions used in the original pricing of these products. Our returns can also vary due to the impact and effectiveness of our hedging program for any capital markets movements that we may hedge, the impact on that portion of our variable annuity contracts with an automatic rebalancing element, also referred to as an asset transfer feature, the impact of risks we have retained and the impact of risks that are not able to be hedged.

Our risk management strategy helps to limit our exposure to certain of these risks, utilizing a combination of product design elements and our living benefits hedging program. The product design elements we utilize for certain products include, among others, asset allocation restrictions, minimum issuance age requirements, and an automatic rebalancing element. The objective of the automatic rebalancing element, included in the design of all currently-sold optional living benefits, is to mitigate our exposure to equity market risk and market volatility by transferring assets between certain variable investments selected by the annuity contractholder and investments that are expected to be more stable (e.g., a separate account bond portfolio or fixed-rate account). The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder s total account value. This occurs at the contractholder level, rather than at the fund level, which we believe enhances our risk mitigation.

Through our living benefits hedging program, we also manage capital markets risk associated with certain of our optional living benefit guarantees. This program represents a balance among three objectives: 1) provide severe scenario protection, 2) minimize net income volatility associated with an internally-defined hedge target, and 3) maintain capital efficiency. Through our hedge program, we purchase derivatives that seek to replicate the net change in our hedge target. In addition to mitigating capital markets risk and income statement volatility, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path, recognizing that, under the terms of the contracts, we do not expect to begin substantial payment of such claims until many years in the future.

For more information regarding the risks inherent in our products and the mitigants we have in place to limit our exposure to these risks, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Marketing and Distribution

Our annuity products are distributed through a diverse group of independent financial planners, wirehouses, banks, and insurance agents, including Prudential Agents and the agency distribution force of The Allstate Corporation, or Allstate. Our distribution efforts are supported by a network of 318 internal and external wholesalers as of December 31, 2012.

Underwriting and Pricing

We earn asset management and other fees determined as a percentage of the average assets of the mutual funds in our variable annuity products, net of subadvisory expenses related to non-proprietary funds. Additionally, we earn mortality and expense fees and other fees for various insurance-related options and features based on the average daily net asset value of the annuity separate accounts or the amount of guaranteed value under the optional living benefit, as applicable. We also receive administrative service fees from many of the proprietary and non-proprietary mutual funds.

We price our variable annuities based on an evaluation of the risks assumed and considering applicable hedging costs. Our pricing is also influenced by competition, and by assumptions regarding contractholder behavior, including persistency, and benefit utilization and withdrawal timing and efficiency for contracts with living benefit features, as well as other assumptions. Significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products. To encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, the living benefit features of our variable annuity products encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

We price our fixed annuities as well as the fixed-rate accounts of our variable annuities based on many assumptions, including investment returns, expenses, competition and persistency. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our fixed annuities and the fixed-rate accounts of our variable annuities. For assets transferred to a fixed-rate account in the general account pursuant to the automatic rebalancing element, we earn a spread for the difference between the return on our general account invested assets and the interest credited, similar to our fixed annuities.

Reserves

We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for our inforce contracts, including any death benefit and living benefit guarantee features associated with these contracts. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, withdrawal timing and efficiency and mortality rates. Certain of the living benefit guarantee features on variable annuity contracts are accounted for as embedded derivatives and are carried at fair value. The fair values of these benefit features 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, and are based on assumptions a market participant would use in pricing these embedded derivative liabilities. For variable and fixed annuity contracts, we establish liabilities for contractholders account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, and all applicable mortality and expense charges.

Retirement

Our Retirement segment, which we refer to in the marketplace as Prudential Retirement, provides retirement investment and income products and services to retirement plan sponsors in the public, private, and not-for-profit sectors. Our full service business provides recordkeeping, plan administration, actuarial advisory services, tailored participant education and communication services, trustee services and institutional and retail investments. We service defined contribution, defined benefit and non-qualified plans. For clients with combinations of defined contribution, defined benefit and non-qualified plans, we offer integrated recordkeeping services. We also provide certain brokerage services through our broker-dealer, Prudential Investment Management Services LLC, and trust services through our bank, Prudential Bank & Trust, FSB (PB&T). In 2012, PB&T divested its bank deposits in connection with the previously announced decision to limit its operations to trust-only services. Our institutional investment products business offers investment-only stable value products, pension risk transfer products, guaranteed investment contracts, or GICs, funding agreements, institutional and retail notes, structured settlement annuities and other group annuities, for defined contribution plans, defined benefit plans, non-qualified plans, and individuals.

Table of Contents

Competition

The Retirement segment competes with other large, well-established insurance companies, asset managers, recordkeepers and diversified financial institutions. In our full service business, we compete primarily based on pricing, the breadth of our service and investment offerings, investment performance, and our ability to offer product features to meet the retirement income needs of our clients. In recent years, we have seen a trend towards unbundling of the purchase decision related to the recordkeeping and investment offerings, where the variety and flexibility of available funds and their performance are key selection criteria to plan sponsors and intermediaries. Additionally, changes in the regulatory environment have driven more transparent fee disclosures, which have heightened pricing pressures. We have also seen slow case turnover in our mid to large case target markets.

In our institutional investment products business, we compete primarily based on our pricing and structuring capabilities, as well as our ability to offer innovative product solutions. Sales of institutional investment products are affected by competitive factors such as investment performance, company credit and financial strength ratings, product design, marketplace visibility, distribution capabilities, fees, crediting rates, and customer service. In recent years, we have established ourselves as a leader in the stable value wrap market. Additionally, in 2012, we completed two significant pension risk transfer transactions, positioning ourselves as innovators in providing pension risk management solutions to plan sponsors. We believe this emerging market offers attractive opportunities that are aligned with our expertise. For certain of our traditional institutional investment products, economic conditions and other competitive factors have resulted in maturing contracts outpacing new issuances.

Products and Services

Full Service. Our full service business offers plan sponsors and their participants a broad range of products and services to assist in the delivery and administration of defined contribution, defined benefit, and non-qualified plans, including recordkeeping and administrative services, comprehensive investment offerings and consulting services to assist plan sponsors in managing fiduciary obligations. As part of our investment products, we offer a variety of general and separate account stable value products and other fee-based separate accounts, as well as retail mutual funds and institutional funds advised by affiliated and non-affiliated investment managers. In addition, certain products that are designed for the benefit of participants are marketed and sold on an investment-only basis through our full service distribution channels.

Our full service general account and separate account stable value products contain an obligation to pay interest at a specified rate for a specific period of time and to repay account balances or market value upon contract termination. These stable value products are either fully or partially participating, with annual or semi-annual rate resets giving effect to previous investment experience. We earn administrative fees for providing recordkeeping and other administrative services for these products. In addition, we earn profits from partially participating products from the spread between the rate of return we earn on the investments and the interest rates we credit, less expenses.

We also offer fee-based products, through which customer funds are held in a separate account, retail mutual funds, institutional funds, or a client-owned trust. These products generally pass all of the investment results to the customer. In certain cases, these contracts are subject to a minimum interest rate guarantee backed by the general account. Additionally, we offer guaranteed minimum withdrawal benefits associated with certain defined contribution accounts, and hedge certain of the related risks utilizing externally purchased hedging instruments.

Our full service fee-based advisory offerings are supported by participant communications and education programs, and a broad range of plan consulting services, including non-discrimination testing, plan document services, signature-ready documents for required filings, and full actuarial support for defined benefit plans. Additional services include non-qualified deferred compensation plan administration, including executive benefit solutions and financing strategies, investment advisory services, and merger and acquisition support.

Institutional Investment Products. Our institutional investment products business primarily offers products to the stable value and payout annuity markets.

Table of Contents

Stable Value Markets. Our stable value area manufactures investment-only products for use in retail and institutional capital markets and qualified plan markets. Our primary stable value product offerings are investment-only wraps through which customers funds are held in a client-owned trust. These are participating contracts for which we pass investment results through to the customer, subject to a minimum interest rate guarantee backed by the general account, and earn fees for providing this guarantee. For contracts currently in force, the minimum interest rate is floored at zero. The fees we earn for providing this guarantee may be reset as defined by the underlying contracts. Contractholders are provided with flexible fund investment alternatives, and assets may be managed by Prudential Financial s asset management unit or third party asset managers.

We also offer investment-only general account products in the form of GICs, funding agreements, retail notes and institutional notes. These products contain an obligation to pay interest at a specified rate and to repay principal at maturity or following contract termination. Because these obligations are backed by our general account, we bear the investment and asset/liability management risk associated with these contracts. Generally, profits from our general account products result from the spread between the rate of return we earn on the investments and the interest rates we credit, less expenses.

Payout Annuity Markets. Our payout annuity area offers innovative pension risk transfer products, as well as traditional general and separate account products designed to provide a predictable source of monthly income, generally for the life of the participant.

Our innovative pension risk transfer products include portfolio-protected products and a longevity reinsurance product. Our portfolio-protected products are non-participating group annuity contracts which we issue to pension plan sponsors and assume all of the investment and actuarial risk associated with a group of specified participants within a plan. These products have economic features similar to our traditional general account annuity contracts, discussed below, but may also offer the added protection of an insulated separate account. Our longevity reinsurance product is a reinsurance contract from which we earn a fee for assuming the longevity risk of pension plans that have been insured by third-parties.

During 2012, we completed two significant non-participating group annuity pension risk transfer transactions. Premiums associated with these transactions represented approximately 38% of Prudential Financial s total consolidated revenue for 2012. These premiums were largely offset by a corresponding increase in policyholders benefits, including the change in policy reserves.

Our traditional general and separate account products include structured settlements, voluntary income products and other group annuities, which fulfill the payment guarantee needs of the personal injury lawsuit settlement market, the distribution needs of defined contribution participants and the payment obligations of defined benefit plans, respectively. For our general account products, we bear all of the investment, mortality, retirement, asset/liability management, and expense risk associated with these contracts. Our profits result from the emerging experience related to investment returns, timing of mortality, timing of retirement, and the level of expenses being more or less favorable than assumed in the original pricing. Our separate account products include both participating and non-participating contracts. Our participating contracts are fee-based products that cover payments to retirees to be made by defined benefit plans. These contracts permit a plan sponsor to retain the risks and rewards of investment and actuarial results while receiving a general account guarantee for all annuity payments covered by the contract. Our non-participating contracts provide pension benefit guarantees to defined benefit plan participants. Under U.S. GAAP, these contracts are treated as general account products, and have economic features similar to our general account annuity contracts, but offer the added protection of an insulated separate account.

Marketing and Distribution

We distribute our products through a variety of channels. In our full service business, our dedicated sales and support teams manage our distribution efforts in offices across the country. We sell our products and services through third-party financial advisors, brokers, and benefits consultants and, to a lesser extent, directly to plan sponsors.

In our stable value area within our institutional investment products business, we utilize our direct sales force and intermediaries to distribute investment-only stable value wraps and traditional GICs to plan sponsors

Table of Contents

and stable value fund managers, and to distribute funding agreements and retail and institutional notes to investors. We also manage a global Funding Agreement Notes Issuance Program, or FANIP, pursuant to which a statutory trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance. Prudential Insurance may also issue funding agreements directly to the Federal Home Loan Bank of New York (FHLBNY).

In our payout annuity area within our institutional investment products business, our pension risk transfer products are distributed through actuarial and third-party brokers. Structured settlements are distributed through structured settlement specialists. Voluntary income products are distributed through the defined contribution portion of our full service business, directly to plan sponsors, or as part of annuity shopping services. Other traditional group annuities and participating separate account annuity products are typically distributed through actuarial consultants and third-party brokers.

Underwriting and Pricing

We set our rates for our stable value products within our full service and institutional investment products businesses using pricing models that consider the investment environment and our risk, expense and profitability assumptions. In addition, for products within our payout annuity area, our models also use assumptions for mortality and early retirement risks. These assumptions may be less predictable in emerging markets, and significant deviations in actual experience from pricing assumptions could affect the profitability of these products. For our investment-only stable value wrap product, our pricing risk is mitigated by the fact that the fees we earn for providing a guaranteed rate of return may be reset, as defined by the underlying contracts. Additionally, the contracts allow participants to withdraw funds at book value, while contractholder withdrawals occur at market value immediately or at book value over time.

Reserves

We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for our in force annuity products. We base these reserves on assumptions we believe to be appropriate for investment yield, expenses, mortality rates, retirement age and other behavioral assumptions, as well as margins for adverse deviation as appropriate. For accumulation products, we establish liabilities for policyholders account balances and additional reserves for investment experience that will accrue to the customer but have not yet been reflected in credited rates.

Asset Management

The Asset Management segment provides a broad array of investment management and advisory services by means of institutional portfolio management, mutual funds, asset securitization activity and other structured products. These products and services are provided to the public and private marketplace, as well as other segments of our Financial Services Businesses and the Closed Block Business. We also invest in asset management and investment distribution businesses in targeted countries, including through investments in operating joint ventures, to expand our mass affluent customer base outside the U.S. and to increase our global assets under management.

We earn asset management fees which are typically based upon a percentage of assets under management. In certain asset management arrangements, we also receive performance-based incentive fees when the return on the managed assets exceeds certain benchmark returns or other performance targets. Transaction fees are earned as a percentage of the transaction price associated with the sale or purchase of assets in certain funds, primarily related to real estate. In addition, we earn investment results from strategic investing and revenues from commercial mortgage origination and servicing.

Competition

The Asset Management segment competes with numerous asset managers and other financial institutions. For our asset management products, we compete based on a number of factors, including investment performance, strategy and process, talent, organizational stability and client relationships. We offer products across multiple asset classes, with specialized investment teams that employ approaches designed to add value in each product area or asset class. Our organizational stability and robust institutional and retail businesses have helped attract and retain talent critical to delivering investment results for clients. Our private placement and commercial mortgage businesses compete based on price, terms, execution and the strength of our relationship with the borrower. Competition will vary depending on the product or service being offered.

Products and Services

We offer asset management services for public and private fixed income, public equity and real estate, as well as commercial mortgage origination and servicing, and mutual funds and other retail services through the following eight businesses:

Prudential Fixed Income. Prudential Fixed Income manages fixed income portfolios for U.S. and international, institutional and retail clients, as well as for our general account. Our products include traditional broad market fixed income and single-sector strategies. We manage traditional as well as customized asset-liability strategies. We also manage hedge strategies and collateralized loan obligations and also serve as a non-custodial securities lending agent.

Portfolios are managed by seasoned portfolio managers across six sector specialist teams: Corporate, Leveraged Finance, Emerging Markets, Global Rates and Securitized Products, Municipals and Money Markets. A separate team is dedicated to securities lending activities. All strategies are managed using a research-based approach, supported by significant credit research, quantitative research, and risk management organizations.

Jennison Associates. Jennison Associates LLC, a wholly-owned registered investment adviser, provides discretionary and non-discretionary asset management services by managing a range of publicly-traded equity, balanced and fixed income portfolios that span market capitalizations, investment styles and geographies. Jennison Associates uses fundamental, team-based research to manage portfolios for institutional, private and subadvisory clients, including mutual funds.

Quantitative Management Associates. Quantitative Management Associates LLC, a wholly-owned registered investment adviser, provides discretionary and non-discretionary asset management services to a wide range of clients by managing a broad array of publicly-traded equity asset classes using various investment styles. Quantitative Management Associates manages equity and asset allocation portfolios for institutional and subadvisory clients, including mutual funds, using proprietary quantitative processes tailored to meet client objectives.

Prudential Capital Group. Prudential Capital Group provides asset management services by investing in private placement investment grade and below investment grade debt and mezzanine debt securities, with a majority of the private placement investments being originated by our staff. These investment capabilities are utilized by our general account and institutional clients through direct advisory accounts, insurance company separate accounts, and private fund structures.

Prudential Mortgage Capital Company. Prudential Mortgage Capital Company provides commercial mortgage origination, asset management and servicing for our general account, institutional clients, and government-sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac, and beginning in 2011, as a minority interest joint venture partner and service provider to originate commercial mortgages for future securitization. Through the third quarter of 2008, we had originated shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease up. Our interim loans are generally paid off through refinancing or the sale by the borrower of the underlying collateral.

Prudential Real Estate Investors. Prudential Real Estate Investors provides asset management services for single-client and commingled private and public real estate portfolios and manufactures and manages a variety of real estate investment vehicles investing in private and public real estate, primarily for institutional clients through 22 offices worldwide. Our domestic and international real estate investment vehicles range from fully diversified open-end funds to specialized closed-end funds that invest in specific types of properties or designated geographic regions or follow other specific investment strategies. Our global real estate organization has an established presence in the U.S., Europe, Asia and Latin America.

Prudential Investments. We manufacture, distribute and service investment management products primarily utilizing proprietary asset management expertise in the U.S. retail market. Our products are designed to be sold primarily by financial professionals including both Prudential Agents and third party advisors. We offer a family of retail investment products consisting of 57 mutual funds as of December 31, 2012. These products cover a wide array of investment styles and objectives designed to attract and retain assets of individuals with varying objectives and to accommodate investors changing financial needs. Additionally, we offer banks and other financial services organizations a wealth management platform, which permits such banks and organizations to provide their retail clients with services including asset allocation, investment manager research and access, clearing, trading services, and performance reporting.

Prudential International Investments. Prudential International Investments manufactures proprietary products and distributes both proprietary and non-proprietary products, tailored to meet client needs. Our international investment operations primarily consist of our asset management operations in Japan, India and Taiwan, and our operating joint ventures in Italy and Brazil which are accounted for under the equity method. These results were formerly included in our International Insurance segment.

In addition, we make strategic investments to support the creation and management of funds offered to third-party investors in private and public real estate, fixed income and public equities asset classes. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). We also make loans to, and guarantee obligations of, our managed funds that are secured by equity commitments from investors or assets of the funds.

Marketing and Distribution

We provide investment management services for our institutional customers through a proprietary sales force organized by each asset management business. Each business has an independent marketing and client service team working with clients. Institutional asset management services are also offered through the Retirement segment of our Financial Services Businesses.

Most of the retail customer assets under management are invested in our mutual funds and our variable annuities and variable life insurance products. These assets are gathered by other segments of our Financial Services Businesses and third party networks. Additionally, we work with third party product manufacturers and distributors to include our investment options in their products and platforms.

We also provide investment management services across a broad array of asset classes for our general account, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments.

U.S. Individual Life and Group Insurance Division

The U.S. Individual Life and Group Insurance division conducts its business through the Individual Life and Group Insurance segments.

Individual Life

Our Individual Life segment manufactures and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent and households with investable assets in excess of $250,000 to be affluent in the U.S. market. Our life products are distributed through independent third party distributors and Prudential Agents.

On January 2, 2013, we acquired The Hartford s individual life insurance business through a reinsurance transaction. Under the agreement, we paid The Hartford cash consideration of $615 million, primarily in the form of a ceding commission to provide reinsurance for approximately 700,000 life insurance policies with a net retained face amount in force of approximately $135 billion. This acquisition increases our 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.

Competition

The Individual Life segment competes with large, well-established life insurance companies in a mature market. We compete primarily based on price, service, distribution channel relationships, brand recognition and financial strength. Due to the large number of competitors, pricing is competitive. Factors that could influence our ability to competitively price products while achieving targeted returns include: the cost and availability of financing for statutory reserves required for certain term and universal life insurance policies, the availability, utilization and timing of tax deductions associated with statutory reserves, product designs which impact the amount of statutory reserves and the associated tax deductions, and the level and volatility of interest rates. The current environment of low interest rates and volatile equity markets has resulted in a greater demand for dividend-paying whole life products across the industry which we no longer offer.

Products

Our primary insurance products are variable life, term life and universal life and represent 40%, 49% and 10%, respectively, of our face amount of individual life insurance in force, net of reinsurance at the end of 2012. Changing marketplace demand has shifted our sales mix towards primarily term life and universal life products.

Variable Life Insurance. We offer several individual variable life insurance products that provide a return linked to an underlying investment portfolio selected by the policyholder while providing the policyholder with the flexibility to change both the death benefit and premium payments. The policyholder generally has the option of investing premiums in a fixed-rate option that is part of our general account or investing in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed-rate option will accrue interest at rates we determine that vary periodically based on our portfolio rate, subject to certain contractual minimums. In the separate accounts, the policyholder bears the fund performance risk. We also offer a variable life product that allows for a more flexible guarantee against lapse where policyholders can select the guarantee period. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance. However, a significant portion of Individual Life s profits is associated with our large in force block of variable policies. Profit patterns on these policies are not level and as the policies age, insureds generally begin paying reduced policy charges. This reduction in policy charges, coupled with net policy count and insurance in force runoff over time, reduces our expected future profits from this product line.

Term Life Insurance. We offer a variety of term life insurance products that provide coverage for a specified time period. Most term products include a conversion feature that allows the policyholder to convert the policy into permanent life insurance coverage. We also offer term life insurance that provides for a return of premium if the insured is alive at the end of the level premium period. There continues to be significant demand for term life insurance protection.

Universal Life Insurance. We offer universal life insurance products that feature flexible premiums, a choice of guarantees against lapse, and a fixed crediting rate that we determine and that may vary periodically based on portfolio returns, subject to certain contractual minimums. In addition, we offer a universal life insurance product that allows the policyholder to allocate a portion of their account balance into an index account that provides a return consistent with the S&P 500 index performance over the following year, subject to certain contractual minimums and maximums. Individual Life s profits from universal life insurance are impacted by mortality and expense margins and net interest spread.

Table of Contents

Marketing and Distribution

Third Party Distribution. Our individual life products are offered through a variety of third party channels, including independent brokers, general agencies and producer groups. We focus on sales through independent intermediaries who provide life insurance solutions to protect individuals, families and businesses and support estate and wealth transfer planning.

Prudential Agents. Our Prudential Agents distribute Prudential variable, term and universal life insurance, variable and fixed annuities and investment products with proprietary and non-proprietary investment options as well as selected insurance and investment products manufactured by others primarily to customers in the U.S. mass and mass affluent markets, as well as small business owners. Prudential Agents also have access to non-proprietary property and casualty products under distribution agreements entered into with the purchasers of our property and casualty insurance operations, which we sold in 2003, and other third party providers. While these agreements provide an opportunity for additional compensation to the Individual Life segment based on multi-year profitability of the products sold, we do not expect the profit from these arrangements to be significant in the future. The number of Prudential Agents was 2,615, 2,529 and 2,471 at December 31, 2012, 2011 and 2010, respectively.

As mentioned above, the Individual Life segment distributes products offered by the Annuities and Asset Management segments and is paid a market rate by these businesses to distribute their products. These payments may be more or less than the associated distribution costs, and any profit or loss is included in the results of the Individual Life segment.

Underwriting and Pricing

Underwriters generally follow detailed policies and procedures to assess and quantify the risk of our individual life insurance products based on the age, gender, health and occupation of the applicant and amount of insurance requested. We base premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. We use assumptions for mortality, interest rates, expenses, policy persistency, premium payment patterns and separate account fund performance as well as the level, cost and availability of financing certain statutory reserves in pricing policies. Deviations in actual experience from our pricing assumptions may adversely or positively impact the profitability of our products.

Reserves

We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for in force life policies. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, mortality and morbidity rates, the cost of financing certain statutory reserves, as well as margins for adverse deviation. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. For variable and interest-sensitive life insurance contracts, we establish liabilities for policyholders account balances that represent cumulative gross premium payments plus credited interest or fund performance, less withdrawals, expenses and cost of insurance charges.

Reinsurance

The Individual Life segment uses reinsurance as a means of managing mortality volatility and risk capacity, which can impact product profitability. On policies sold since 2000, we have reinsured a significant portion of the mortality risk assumed. As of the end of 2012, the maximum exposure we retained for new business was $30 million on single life policies and $35 million on second-to-die policies. However, in 2013, we prospectively reduced this maximum exposure limit to $20 million on both single life and second-to-die policies. Over time we have accumulated policies with higher retained exposure which may result in earnings volatility. In addition, certain transactions, such as assumed reinsurance or acquisitions of inforce contracts, may cause us to temporarily or permanently exceed these limits on an aggregate basis. If a third party reinsurer is, for some reason, unable to meet its obligations, we remain liable. On a Company wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of counterparty risk to mitigate this exposure.

Table of Contents

Group Insurance

Our Group Insurance segment manufactures and distributes a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the U.S. primarily to institutional clients for use in connection with employee and membership benefits plans. We also sell accidental death and dismemberment and other ancillary coverage, and provide plan administrative services in connection with our insurance coverages.

Competition

We compete with other large, well-established life and health insurance providers in the U.S. markets, and are a top provider of both group life and disability insurance. Due to the maturity of the markets in which we compete, competition is primarily based on price, strong brand recognition, service capabilities, customer relationships, financial stability and range of product offerings. Because of the large number of competitors, pricing is competitive. The majority of our premiums are derived from large corporations, affinity groups or other organizations with over 10,000 insured individuals. We have a strong portfolio of products and the capability to offer customized benefit solutions, providing opportunities for continuing stabilized premiums and growth. Employee-paid coverage has become increasingly important as employers attempt to control costs and shift benefit decisions/funding to employees who continue to value benefits offered at the workplace. Our profitability is dependent in part on penetration in the voluntary coverage marketplace, which will be affected by future employment and compensation rates.

Products

Group Life Insurance. Our portfolio of group life insurance products consists of employer-paid (basic) and employee-paid (voluntary) coverages, including basic and supplemental term life insurance for employees, optional term life insurance for employees dependents and group universal life insurance. We also offer group variable universal life insurance, basic and voluntary accidental death and dismemberment insurance and business travel accident insurance. Many of our employee-paid coverages allow employees to retain their coverage when they change employers or retire.

Group Disability Insurance. We offer short- and long-term group disability insurance, which protects against loss of wages due to illness or injury, as well as short- and long-term disability management, and absence management services. Disability benefits are limited to a portion, generally 50% to 70%, of the insured s earned income up to a specified maximum benefit. Short-term disability generally provides a weekly benefit for three to six months, while long-term disability benefits are paid monthly, following a waiting period (usually 90 or 180 days, during which short-term disability may be provided) and generally continue until the insured reaches normal retirement age.

Group Corporate-, Bank- and Trust-owned Life Insurance. Our group corporate-, bank- and trust-owned life insurance products are group variable life insurance contracts utilizing separate accounts, and are typically used by large corporations to fund deferred compensation plans and benefit plans for retired employees.

Marketing and Distribution

Group Insurance has its own dedicated sales force that is organized around products and market segments and distributes primarily through employee benefits brokers and consultants.

Underwriting and Pricing

We follow standard underwriting practices and procedures, and have developed standard rating systems for each product line based on Company or industry experience. We assess the risk profile of prospective insured groups; however, certain voluntary products or coverages may require underwriting on an individual basis. We are not obligated to accept any policy applications, and may require a prospective insured to submit evidence of insurability.

Table of Contents

We base pricing of group insurance products on the expected pay-out of benefits and other costs that we calculate using assumptions for mortality, morbidity, interest, expenses and persistency, depending upon the specific product features. For certain policies, we determine premiums on a retrospective experience-rated basis, in which case the group contractholder bears some of the risk, or receives some of the benefit, associated with claim experience fluctuations. For policies that are not eligible to receive experience-based refunds, our profitability is more subject to fluctuations. In addition, we provide multiple year rate guarantees on many of our group contracts, which can also contribute to fluctuations in profitability.

Reserves

We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations. We base these reserves on actuarially-recognized methods using morbidity and mortality tables in general use in the U.S., which we modify to reflect our actual experience when appropriate. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. We also establish a liability for policyholders account balances that represent cumulative deposits plus credited interest and/or fund performance, less withdrawals, expenses and cost of insurance charges, as applicable.

Reinsurance

We use reinsurance to limit losses from large exposures, and in response to client requests. If a third party reinsurer is, for some reason, unable to meet its obligations, we remain liable. On a Company wide basis, we evaluate the financial condition of reinsurers and monitor concentration of counterparty risk to mitigate this exposure.

International Insurance Division

The International Insurance division conducts its business through the International Insurance segment.

International Insurance

Our International Insurance segment manufactures and distributes individual life insurance, retirement and related products, including certain health products with fixed benefits. We provide these products to the broad middle income market across Japan through multiple distribution channels including banks, independent agencies and Life Consultants, who are associated with our Gibraltar Life operations. We also provide similar products to the mass affluent and affluent markets in Japan, Korea and other countries outside the U.S. through our Life Planner operations. We commenced sales in non-U.S. markets through our Life Planner operations, as follows: Japan, 1988; Taiwan, 1990; Italy, 1990; Korea, 1991; Brazil, 1998; Argentina, 1999; Poland, 2000; and Mexico, 2006. We continue to seek opportunities for expansion into high-growth markets in targeted countries.

For the year ended December 31, 2012, our Life Planner operation in Japan and our Gibraltar Life operations represented 23% and 71%, respectively, of the net premiums, policy charges and fee income of the International Insurance segment, and in aggregate, represented 35% of the net premiums, policy charges and fee income of the Financial Services Businesses, translated on the basis of weighted average monthly exchange rates.

In addition to the operations discussed above, we have a 26% interest in a joint venture in India, the maximum currently allowed by regulation in India. We also had an investment in China through a consortium of investors that held a minority interest in China Pacific Insurance (Group) Co, Ltd. Through December 31, 2012, this consortium sold approximately 85% of its holdings in China Pacific Group and sold its remaining interest in 2013.

We manage each operation on a stand-alone basis with local management and sales teams, with oversight by senior executives based in Asia, Latin America and Newark, New Jersey. Each operation has its own marketing, underwriting, claims, investment management, and actuarial functions. In addition, significant portions of the general account investment portfolios are managed by certain of our international investment subsidiaries and, to a lesser extent, by our domestic asset management subsidiaries. Operations generally invest in local currency securities, primarily bonds issued by the local government or its agencies. In our larger operations, we have more diversified portfolios that also include U.S. dollar-denominated investments in large part to support products issued in U.S. dollars and as part of our foreign exchange hedging strategy. In addition, our Gibraltar Life operations have Australian dollar-denominated investments that support products issued in that currency.

Acquisition of the Star and Edison Businesses

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of the Star and Edison Businesses pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The Star and Edison companies were merged into Gibraltar Life on January 1, 2012. See Note 3 to the Consolidated Financial Statements for further information.

Competition

The life insurance markets in Japan and Korea are mature and pricing is competitive. Rather than competing based on price, we generally compete on the basis of customer service, including our needs-based approach to selling, the quality and diversity of our distribution capabilities, and our financial strength. The aging population throughout Asia creates an increasing need for product innovation, introducing insurance products which allow for savings and income as the population transitions to retirement. The ability to sell through multiple and complementary distribution channels is a competitive advantage. However, competition for sales personnel, as well as access to third party distribution channels, is intense.

Products

Our international insurance operations have a diversified product mix, primarily denominated in local currencies and emphasizing death protection while supporting the growing demand for retirement and savings products. We offer various traditional whole life, term, endowment (which provide for payment on the earlier of death or maturity) and retirement income life insurance products that combine an insurance protection element similar to that of term life policies with a retirement income feature, including our single premium reduced death benefit whole life product. This product is sold on a simplified underwriting basis and pays a lower death benefit in the first five policy years. This product has a higher savings component than a recurring premium whole life insurance product and may be more vulnerable to lapses if interest rates increase. Premiums associated with this product represented approximately 10% of the Company s total consolidated revenue for 2012.

In most of our operations, we also offer certain health products with fixed benefits, some of which include a high savings element, as well as annuity products, which are primarily represented by U.S. and Australian dollar-denominated fixed annuities in our Gibraltar Life operations. Sales and surrenders of non-yen products are sensitive to foreign currency relationships which are impacted by, among other things, the comparative interest rates in the respective countries. Our annuity products impose a market value adjustment if the invested amount is not held to maturity.

Marketing and Distribution

Our International Insurance segment distributes its products through multiple distribution channels. This includes two captive agent models, Life Planners and Life Consultants, as well as bank and independent agency third party distribution channels. For additional information on headcount for our captive agents, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment International Insurance Division.

Life Planners. Our Life Planner model differentiates us from competitors in the countries where we do business by focusing on selling protection-oriented life insurance products on a needs basis to mass affluent and affluent customers, as well as retirement-oriented products to small businesses. We believe that our recruiting and selection process, training programs and compensation package are key to the Life Planner model and have helped our Life Planner operations achieve higher rates of agent retention, agent productivity and policy persistency than our local competitors. The attributes considered when recruiting new Life Planners include but are not limited to: University/College degree, no prior life insurance sales experience, a minimum of two years of sales or sales management experience, and a pattern of job stability and success. The number of Life Planners as of December 31, 2012 and 2011 were 7,058 and 6,792, respectively.

Life Consultants. Our Life Consultants are the proprietary distribution force for products offered by our Gibraltar Life operations. Their focus is to provide individual protection products to the broad middle income market in Japan, particularly through relationships with affinity groups. Our Life Consultant operation is based on a variable compensation plan designed to improve productivity and persistency that is similar to compensation plans in our Life Planner operations. The number of Life Consultants as of December 31, 2012 and 2011 were 11,333 and 12,791, respectively.

Bank Distribution Channel. Our Gibraltar Life operation has been selling its products through banks since 2006. Bank distribution channel sales primarily consist of products intended to provide savings features and premature death protection, such as our yen-denominated single premium reduced death benefit whole life product, and retirement income as well as fixed annuity products primarily denominated in U.S. and Australian dollars. Recent sales in this channel have been highly concentrated in single pay or limited pay contracts, including our single premium reduced death benefit whole life product discussed above, which tend to be larger policies and therefore have higher average premiums per policy.

Historically, a significant portion of our sales in Japan through our bank channel distribution were derived through a single Japanese mega-bank. More recently, however, certain of our other bank channel relationships are making an increasing contribution to sales growth and we have expanded our number of partnerships. We now have relationships with Japan s four largest banks and we continue to explore opportunities to expand our distribution capabilities through this channel.

Independent Agency Distribution Channel. Our independent agency channel sells protection products and high cash value products for retirement benefits through the business market and sells a variety of other products including protection, medical and fixed annuity products through the individual market. Our focus is to maintain a diverse mix of independent agency relationships including accounting firms, corporate agencies and independent agencies with a balanced focus on individual and business markets. We differentiate ourselves by providing quality service to producers in this distribution channel.

Underwriting and Pricing

Our International Insurance segment is subject to substantial local regulation that is generally more restrictive for product offerings, pricing and structure than U.S. insurance regulation. Each International Insurance operation has its own underwriting department that employs variations of U.S. practices in underwriting individual policy risks. In setting underwriting limits, we also consider local industry standards to prevent adverse selection and to stay abreast of industry trends. In addition, we set underwriting limits together with each operation s reinsurers.

Pricing of similar products is generally consistent in each of our countries. The profitability of our products is impacted by differences between actual mortality and morbidity experience and the assumptions used in pricing these policies and as a result, can fluctuate from period to period. However, we anticipate over the long-term to achieve the aggregate mortality and morbidity levels reflected in the assumptions used in pricing.

Reserves

We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, mortality and morbidity rates, as well as margins for adverse deviation. For variable and interest-sensitive life products, as well as annuity products, we establish liabilities for policyholders account balances that represent cumulative gross premiums collected plus interest or investment results credited less surrenders, and charges for cost of insurance and administration fees.

Table of Contents

Reinsurance

International Insurance reinsures portions of its insurance risks, primarily mortality, with both selected third party reinsurers and Prudential Insurance. For example, International Insurance buys catastrophe reinsurance that covers multiple deaths from a single occurrence in some of our insurance operations and has a coinsurance agreement with Prudential Insurance for the U.S. dollar-denominated business in our Japanese Life Planner insurance operations. If a third party reinsurer is, for some reason, unable to meet its obligations, we remain liable. On a Company-wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of credit risk to mitigate this exposure.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and divested businesses except for those that qualify for discontinued operations accounting treatment under U.S. GAAP.

Corporate Operations

Corporate operations consist primarily of: (1) investment returns on capital that is not deployed in any business segments; (2) returns from investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities, deferred compensation, and costs related to certain contingencies; (6) certain retained obligations relating to pre-demutualization policyholders whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation; (7) results related to a life insurance joint venture and an asset management joint venture in China; (8) results related to our Capital Protection Framework; and (9) the impact of transactions with and between other segments.

Corporate operations include results related to our Capital Protection Framework, which includes, among other initiatives, the following:

- Our capital hedge program which broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Capital Protection Framework.

- The capital consequences of our decision to manage the interest rate risk associated with various operations of the Financial Services Businesses by holding capital against a portion of the interest rate exposure rather than fully hedging the risk.

- The capital consequences associated with certain risks associated with our variable annuity products through our living benefit hedging program, which is described under Management s Discussion and Analysis of Financial Condition and Results of Operations U.S. Retirement Solutions and Investment Management Division Individual Annuities. We maintain access to on-balance sheet capital and contingent sources of capital that are available to meet capital needs that may arise related to this hedging program.

We assess the composition of these hedging programs on an ongoing basis, and we may change them from time to time based on our evaluation of the Company s risk position or other factors.

Divested Businesses

Divested Businesses reflect the results of the following businesses that have been or will be sold or exited, including businesses that have been placed in wind down, that did not qualify for discontinued operations accounting treatment under U.S. GAAP. We exclude these results from our adjusted operating income. See Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations Segment Measures for an explanation of adjusted operating income.

Long-Term Care. In July 2012, we announced our decision to cease sales of group long-term care insurance reflecting the challenging economics of the long-term care market including the continued low interest rate environment as well as our desire to focus our resources on our core group life and disability businesses. We discontinued sales of group long-term care products effective August 1, 2012, or a later date as may be required by specific state law. We notified our clients of our intent to continue to accept enrollments on existing group long-term care contracts through June 30, 2013 or later as required by contractual provisions. In March 2012, we discontinued sales of our individual long-term care products.

We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations. We base these reserves on actuarially-recognized methods using morbidity and mortality tables in general use in the U.S., which we modify to reflect our actual experience when appropriate. Reserves also include claims reported but not yet paid and claims incurred but not yet reported. We also include interest rate assumptions which are based on actual and expected net investment returns. Our assumptions for reserves for future policy benefits related to these products have factored in our best estimate of the timing and amount of anticipated and yet-to-be-filed premium increases which will require state approval. Our actual experience obtaining pricing increases could be materially different than what we have assumed, resulting in further policy liability increases which could be material.

Residential Real Estate Brokerage Franchise and Relocation Services. In 2011, we sold our real estate brokerage franchise and relocation services businesses to Brookfield Asset Management, Inc. (Brookfield), but retained ownership of a financing subsidiary with debt and equity investments in a limited number of real estate brokerage franchises. Also, we agreed to provide certain Brookfield affiliates with transitional financing for the transferred relocation services through three credit facilities, which were fully repaid and terminated in 2012.

Financial Advisory. In 2008, we announced our intention to exit our financial advisory business, which consisted of our investment in a retail securities brokerage and clearing operations joint venture which was sold on December 31, 2009. Certain expenses relating to the businesses we originally contributed to the joint venture were retained, primarily for litigation and regulatory matters.

Property and Casualty Insurance. In 2003, we sold our property and casualty insurance companies to Liberty Mutual Group, or Liberty Mutual. We have reinsured Liberty Mutual for adverse loss development for specific property and casualty risks that Liberty Mutual did not want to retain. We believe that we have adequately reserved for our remaining property and casualty obligations under these reinsurance contracts based on the current information available.

Individual Health and Disability Insurance. We ceased writing individual disability income policies in 1992, and a year later ceased writing hospital expense and major medical policies. Most of our individual disability income policies are non-cancelable; however, we reinsured all of these policies as of July 1999. For our hospital expense and major medical policies, the 1997 Health Insurance Portability and Accountability Act guarantees renewal. Under certain circumstances, with appropriate approvals from state regulatory authorities, we are permitted to change the premiums charged for these policies if we can demonstrate the premiums have not been sufficient to pay claims. We establish actuarially-determined reserves for future policy benefits that we believe will meet our future obligations.

Other. In addition to the businesses described above, the results of Divested Businesses also include the following:

In 2000, we announced a restructuring of Prudential Securities activities and subsequently exited the lead-managed equity underwriting business for corporate issuers and the institutional fixed income business.

We have not actively engaged in the assumed life reinsurance market in the United States since the early 1990s; however, we remain subject to mortality risk for certain assumed individual life insurance policies

Table of Contents

under the terms of the reinsurance treaties. In 2000, we sold our interest in Prudential of America Life Insurance Company, or PALIC, but remain subject to mortality risk for certain assumed individual life insurance policies sold by PALIC under the terms of the reinsurance treaties. We establish actuarially-determined reserves for future policy benefits consistent with our methodologies for yearly renewable term life policies, which are less than the net amount at risk. As of December 31, 2012, the net amount at risk was $17 million.

In addition to the above, we indemnified the purchaser of PALIC for certain liabilities with respect to claims related to sales practices or market conduct issues arising from operations prior to the sale.

Discontinued Operations

Discontinued operations reflect the results of the following businesses which qualified for discontinued operations accounting treatment under U.S. GAAP:

- We discontinued our Mexican asset management operations in the second quarter of 2009 and subsequently sold these operations in the fourth quarter of 2009;
- We discontinued our Korean asset management operations in the first quarter of 2010 and subsequently sold these operations in the second quarter of 2010;
- We discontinued our global commodities operations in the second quarter of 2011 and subsequently sold these operations in the third quarter of 2011; and
- Direct real estate investments that are sold or held for sale may require discontinued operations accounting treatment under U.S. GAAP.

Closed Block Business

In connection with the demutualization in 2001, we ceased offering domestic participating individual life insurance and annuity products, under which policyholders are eligible to receive policyholder dividends reflecting experience. The liabilities for our individual in force participating products were segregated, together with assets used exclusively for the payment of benefits and policyholder dividends, expenses and taxes with respect to these products, in the Closed Block. We selected the amount of Closed Block Assets that were expected to generate sufficient cash flow, together with anticipated revenues from the Closed Block Policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits and to provide for the continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continued. For accounting purposes, we also segregated the Surplus and Related Assets that we needed to hold outside the Closed Block to meet capital requirements related to the policies included within the Closed Block at the time of demutualization. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses. The Closed Block forms the principal component of the Closed Block Business. As of December 31, 2012, total attributed equity of the Closed Block Business represented 4% of the Company s total attributed equity. For additional discussion of the Closed Block Business, see Demutualization and Separation of the Businesses Separation of the Businesses.

As discussed in Note 12 to the Consolidated Financial Statements, if the performance of the Closed Block is more or less favorable than we originally assumed in funding, total dividends paid to Closed Block policyholders in the future may be greater 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 may be available for distribution over time to Closed Block policyholders as part of policyholder dividends unless offset by future Closed Block experience that is less favorable than expected. These cash flows will not be available to shareholders. A policyholder dividend obligation liability is established for any excess cash flows. Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets of the Closed Block Business.

Table of Contents

Our strategy for the Closed Block Business is to maintain the Closed Block as required by our Plan of Reorganization over the time period of its gradual diminishment as policyholder benefits are paid in full. We are permitted under the Plan of Reorganization, with the prior consent of the New Jersey Commissioner of Banking and Insurance, to enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies. The long-term risks associated with the Closed Block Business are 90% reinsured (subject to certain caps) including, as of January 1, 2013, 17% reinsured by two wholly-owned subsidiaries. We also reinsure 90% of the short-term risks associated with the Closed Block Business to another wholly-owned subsidiary. Reinsurance of the Closed Block Business is reported in the Corporate and Other operations within the Financial Services Businesses. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for more information on the Closed Block reinsurance arrangements, as well as Note 13 to the Consolidated Financial Statements for additional discussion on the accounting for these reinsurance arrangements.

Intangible and Intellectual Property

We capture and protect the innovation in our financial services products by applying for federal business method patents and implementing trade secret controls, as appropriate. We also use numerous federal, state, common law and foreign servicemarks. We believe that the goodwill associated with many of our patents and trade secrets, and the goodwill associated with many of our servicemarks, particularly Prudential®, Prudential Financial®, the Prudential logo and our Rock symbol, are significant competitive assets in the U.S.

On April 20, 2004, we entered into a servicemark and trademark agreement with Prudential plc of the United Kingdom, with whom we have no affiliation, concerning the parties respective rights worldwide to use the names Prudential and Pru. Under the agreement, there are restrictions on our use of the Prudential name and mark in a number of countries outside the Americas, including Europe and most parts of Asia. Where these limitations apply, we combine our Rock symbol with alternative word marks. We believe that these limitations do not materially affect our ability to operate or expand internationally.

Competition

In each of our businesses, we face intense competition from insurance companies, asset managers and diversified financial institutions in the U.S. and abroad. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength or credit ratings than we do. We compete in our businesses based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution and distribution arrangements, price, risk management capabilities, capital management capabilities, and financial strength and credit ratings. The relative importance of these factors varies across our products, services and the markets we serve. The competitive landscape is, and will be, impacted by the various frameworks applied to us and our competitors.

Competition for personnel in our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Consultants and other sales personnel, and our investment managers. In the ordinary course of business, we lose personnel from time to time in whom we have invested significant training. We direct substantial efforts to recruit and retain our insurance agents and employees and to increase their productivity. Competition for desirable non-affiliated distribution channels is also intense.

Additional factors affecting the competitive landscape for our products and services are discussed within the descriptions of our business segments above.

Table of Contents

Regulation

Overview

Our businesses are subject to comprehensive regulation and supervision. The purpose of these regulations is primarily to protect our customers and the overall financial system and not necessarily our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. The financial market dislocations in recent years produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally, including the Dodd-Frank Wall Street Reform and Consumer Protection Act discussed below.

Regulation Affecting Prudential Financial

Prudential Financial is the holding company for all of our operations and is subject to regulation as an insurance holding company under applicable insurance laws. On October 31, 2012, the Board of Governors of the Federal Reserve System (FRB) approved Prudential Financial s application to deregister as a savings and loan holding company and Prudential Financial is no longer subject to regulation as a savings and loan holding company. As a company with publicly-traded securities, Prudential Financial is subject to legal and regulatory requirements applicable generally to public companies, including the rules and regulations of the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) relating to public reporting and disclosure, securities trading, accounting and financial reporting, and corporate governance matters.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) subjects us to substantial additional federal regulation. Dodd-Frank directs government agencies and bodies to conduct certain studies and promulgate regulations implementing the law, a process that is underway and expected to continue. We cannot predict with any certainty the results of the studies or the requirements of the regulations recently or not yet adopted or how Dodd-Frank and such regulations will affect the financial markets generally, impact our business, credit or financial strength ratings, results of operations, cash flows or financial condition or make it advisable or require us to hold or raise additional capital.

Key aspects of Dodd-Frank s impact on us include:

- Dodd-Frank established a Financial Stability Oversight Council (Council) which is authorized to subject non-bank financial companies such as Prudential Financial to stricter prudential standards and to supervision by the FRB (a Designated Financial Company) if the Council determines that material financial distress at the company or the scope of the company s activities could pose a threat to the financial stability of the U.S. On October 19, 2012, Prudential Financial received notice that it is under consideration by the Council for a proposed determination that it should be designated as a Designated Financial Company. The Council may determine to issue to Prudential Financial a written notice of determination that it is a Designated Financial Company, in which event we would be entitled to request a nonpublic evidentiary hearing before the Council and further court review. We cannot predict whether Prudential Financial or a subsidiary will ultimately be designated as a Designated Financial Company.

If we are determined to be a Designated Financial Company, we would become subject to stricter prudential standards that are the subject of ongoing rule-making, including proposed stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to submit to the FRB (and periodically update) a plan for rapid and orderly dissolution in the event of severe financial distress. In December 2011, the FRB published for comment proposed rules implementing certain of these standards. Under the proposed rules, a Designated Financial Company would be required to calculate its minimum risk-based capital and leverage requirements as if it were a bank holding company in accordance with capital requirements published by the FRB for bank holding companies (as further discussed below) and be subject to a minimum Tier 1 risk-based capital ratio of 4%, a total risk-based capital ratio of 8% and a Tier 1 leverage ratio of 4%. However, the proposed rules indicate that the FRB may consider that adjustments to such requirements may be appropriate with respect to Designated Financial Companies. Designated Financial Companies of our size would be required to submit annual capital plans to the FRB demonstrating their ability to satisfy the required capital ratios under baseline and stressed conditions. The FRB has indicated that it intends to issue, in addition to such capital requirements, a proposal requiring a risk-based capital surcharge for such companies, or a subset thereof. The proposed rules also include enhanced liquidity requirements, which would require Designated Financial Companies to maintain a liquidity buffer of highly liquid unencumbered assets sufficient to meet projected cash flows under required stress-testing, and to establish and maintain a contingency funding plan and concentration and other exposure limits to address liquidity needs and risk. Under the proposed rules, a Designated Financial Company would be required to limit its credit exposure to any unaffiliated entity (including sovereign issuers) to no more than 25% of its consolidated capital stock and surplus or to no more than 10% with respect to any major counterparty, which includes any Designated Financial Company or bank holding company with more than $500 billion of total consolidated assets.

The proposed rules implement, as required by Dodd-Frank, the establishment of an early remediation regime, whereby failure to meet defined measures of financial condition (including exceeding certain capital and leverage ratios or market indicator thresholds, the occurrence of adverse stress test results or other financial triggers) would result in remedial action by the FRB. Depending on the degree of financial distress, such remedial action could result in: heightened FRB supervisory review; limitations or prohibitions on capital distributions, acquisitions and/or asset growth; requirements to raise additional capital or take other actions to improve capital adequacy; limitations on transactions with affiliates; restrictions on product offerings and/or requirements to sell assets; or recommendation for resolution under the special orderly liquidation process discussed further below. The proposed rules would require that a Designated Financial Company determined by the Council to pose a grave threat to financial stability of the U.S., maintain a debt-to-equity ratio of no more than 15-to-1 until the limitation is no longer necessary. We cannot predict the form in which these proposed regulations ultimately will be adopted. Dodd-Frank authorizes the FRB to tailor its application of enhanced prudential standards to different companies on an individual basis or by category, taking into consideration financial activities involved and other factors. The FRB has stated that it expects to take into account the differences among bank holding companies and Designated Financial Companies, including insurance companies, when applying these enhanced prudential standards. Nevertheless, we cannot predict how the FRB will apply these prudential standards to us if we are designated as a Designated Financial Company.

In 2012, the FRB published a number of notices of proposed rulemaking that would substantially revise the risk-based capital requirements applicable to bank holding companies compared to the current general risk-based capital rules. The proposals include provisions affecting the calculation of regulatory capital ratios and the use of credit ratings for valuation purposes and implementing the Collins Amendment s requirement that the current general risk based capital rules serve as a floor for specified institutions. Although these proposals do not address Designated Financial Companies, the FRB has indicated that the proposals will become a key part of the enhanced prudential standards for covered companies, including Designated Financial Companies, described above. In addition, regulations that have been adopted to date include a modification to the general risk-based capital rules in order to address appropriate capital requirements for low-risk assets held by non-bank financial companies such as Prudential Financial, and would permit flexibility in the application of certain capital requirements imposed by Dodd-Frank to non-bank financial companies. We cannot predict what capital regulations the FRB will promulgate under these authorizations, either generally or as applicable to Prudential Financial were it to become a Designated Financial Company.

If designated as a Designated Financial Company, we will be subject to stress tests to be promulgated by the FRB to determine whether, on a consolidated basis, we have the capital necessary to absorb losses as a result of adverse economic conditions. If so designated, we would be required to submit to annual stress tests conducted by the FRB and to conduct internal annual and semi-annual stress tests to be provided to the FRB. Under final rules published by the FRB in October 2012, Designated Financial Companies must comply with these requirements the calendar year after the year in which a company first becomes subject

Table of Contents

to the FRB s minimum regulatory capital requirements discussed above, although the FRB has the discretion to accelerate or extend the effective date. The final rules require baseline, adverse and severely adverse scenarios to be used. The FRB will provide the scenarios to be used in the internal annual stress tests, although companies will be required to develop their own scenarios for the internal semi-annual stress tests. The FRB has indicated that it may tailor the application of the stress test requirements to Designated Financial Companies on an individual basis or by category. Summary results of such stress tests would be required to be publicly disclosed. We cannot predict the manner in which the stress tests would ultimately be designed, conducted and disclosed were Prudential Financial to become a Designated Financial Company or whether the results of such designation will cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength.

The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices we and other insurers or other financial services companies engage in. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

If Prudential Financial is designated as a Designated Financial Company, we could be subject, pursuant to future FRB rulemaking, to additional capital requirements for, and quantitative limits on, proprietary trading and sponsorship of, and investment in, hedge, private equity and other covered funds.

Dodd-Frank creates a new framework for regulation of the over-the-counter (OTC) derivatives markets which could impact various activities of Prudential Global Funding (PGF), Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). Dodd-Frank generally requires swaps, subject to a determination by the Commodity Futures Trading Commission (CFTC) or SEC as to which swaps are covered, entered into by all counterparties except non-financial end users to be executed through a centralized exchange or regulated facility and to be cleared through a regulated clearinghouse. Swap dealers and major swap participants (MSPs) are subject to capital and margin (i.e., collateral) requirements that will be imposed by the applicable prudential regulator or the CFTC or SEC, as well as business conduct rules and reporting requirements. In November 2012, the Secretary of the Treasury determined to exclude most foreign currency swaps and forwards from the foregoing requirements. We believe Prudential Financial, PGF and our insurance subsidiaries should not be considered dealers or MSPs subject to registration and the capital and margin requirements. In August 2012, the CFTC published for comment a proposed rule to exempt certain affiliated entities within a corporate group from the foregoing centralized exchange execution and clearing requirements. We cannot predict whether or in what final form the proposed rule will be adopted. The SEC and CFTC have issued regulations defining swaps and are required to determine whether and how stable value contracts should be treated as swaps and, although we believe otherwise, various other products offered by our insurance subsidiaries might be treated as swaps; if regulated as swaps, we cannot predict how the rules would be applied to such products or the effect on their profitability or attractiveness to our clients. Finally, the new regulatory scheme imposed on all market participants may increase the costs of hedging generally and, because banking institutions will be required to conduct at least a portion of their OTC derivatives businesses outside their depositary institutions, may affect the credit risk these counterparties pose to us and the degree to which we are able to enter into transactions with such counterparties. We cannot predict the effect of the foregoing on our hedging costs, our hedging strategy or implementation thereof or whether we will need or choose to increase and/or change the composition of the risks we do not hedge.

Dodd-Frank established a Federal Insurance Office (FIO) within the Department of the Treasury headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the FIO director performs various functions with respect to insurance, including serving as a non-voting member of the Council and making recommendations to the Council regarding insurers (including the Company) to be named as Designated Financial Companies and coordinating with the FRB in the application of any stress tests required to be conducted with respect to an insurer. The FIO director is also required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states.

Table of Contents

Title II of Dodd-Frank provides that a financial company may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the FDIC as receiver, upon a determination (with the approval of the FIO director if as is true with respect to Prudential Financial the largest United States subsidiary is an insurer) that the company is in default or in danger of default and presents a systemic risk to U.S. financial stability. Were Prudential Financial subject to such a proceeding, our U.S. insurance subsidiaries would remain subject to rehabilitation and liquidation proceedings under state law, although the FDIC has discretion and authority to initiate resolution of an insurer under state law if its state insurance regulator has not filed the appropriate judicial action within 60 days of a systemic risk determination. However, our non-insurance U.S. subsidiaries engaged in financial activities would be subject to any special orderly liquidation process so commenced.

Dodd-Frank includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith. In January 2011, the SEC staff issued a study that recommends that the SEC adopt a uniform federal fiduciary standard of conduct for registered broker-dealers and investment advisers that provide retail investors personalized investment advice about securities.

We cannot predict with any certainty whether these possible outcomes will occur or the effect they may have on the financial markets or on our business, results of operations, cash flows and financial condition.

International Regulatory Initiatives

In addition to the adoption of Dodd-Frank in the United States, lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations. The G20, the FSB and related governmental bodies have developed proposals to address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The FSB, for example, has proposed to designate certain companies as systematically significant, similar to the approach the Council may take in connection with Designated Financial Companies. The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holding companies by the Financial Services Agency (FSA) in Japan. In addition, the prudential regulation of insurance and reinsurance companies across the European Economic Area (EEA) is due for significant change under the Solvency II Directive. This new regime will effect a full revision of the insurance industry s solvency framework and prudential regime (in particular minimum capital and solvency requirements, governance requirements, risk management and public reporting standards) and will impose, among other things, group level supervision mechanisms. The impact of the implementation of Solvency II on Prudential cannot be determined at this time. There can be no assurance that Solvency II will not, at a minimum, result in increased supervisory, capital and disclosure burdens on Prudential s EEA operations with potential broader collateral consequences to Prudential Financial.

The foregoing requirements and developments could impact the manner in which we deploy our capital, structure and manage our businesses, and otherwise operate both within and outside the U.S. The possibility of inconsistent and conflicting regulation of the Prudential Financial group of companies also exists as law makers and regulators in multiple jurisdictions simultaneously pursue these initiatives.

Other U.S. Federal Regulation

U.S. Tax Legislation

The American Taxpayer s Relief Act (the Act) was signed into law on January 2, 2013. The Act permanently extended the reduced Bush-era individual tax rates for certain taxpayers and permanently increased those rates for higher income taxpayers. Higher tax rates increase the benefits of tax deferral on the build-up of value of annuities and life insurance. The Act also made permanent the current $5 million (indexed for inflation) per person estate tax exemption and increased the top estate tax rate from 35% to 40%. In addition, the Act extended various business tax provisions through the end of 2013 that had expired at the end of 2011. One such

Table of Contents

provision provides tax deferral for investment income earned by a foreign insurance operation until the income is repatriated to the U.S. If this provision had not been extended, the Company would have been subject to current U.S. tax on investment income earned by its foreign insurance subsidiaries.

Notwithstanding the passage of the Act, there continues to be uncertainty regarding U.S. taxes, both for individuals and corporations. There continues to be discussions in Washington concerning the need to reform the tax code, primarily by lowering tax rates and broadening the base by reducing or eliminating certain tax expenditures. Reducing or eliminating certain expenditures could make our products less attractive to customers. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products. However, even in the absence of overall tax reform, the large federal deficit increases the possibility that Congress will raise revenue by enacting legislation to increase the taxes paid by individuals and/or corporations. This can be accomplished by either raising rates or otherwise changing the tax rules.

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. Congress from time to time considers legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the benefit of this deferral on some annuities and insurance products.

Additionally, legislative or regulatory changes could also impact the amount of taxes that we pay, thereby affecting our consolidated net income. For example, the U.S. Treasury Department and the Internal Revenue Service intend to address through guidance the methodology to be followed in determining the dividends received deduction, or DRD, related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between our actual tax expense and expected tax amount determined using the federal statutory tax rate of 35%. For the last several years, the revenue proposals included in the Obama Administration s budgets (the Administration s Revenue Proposals) included a proposal that 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 guidance or legislation, could increase actual tax expense and reduce the Company s consolidated net income.

Furthermore, the Administration s Revenue Proposals also included items that would change the method by which U.S. multinationals claim foreign tax credits and the timing of the deduction for interest expense that is allocable to foreign source income.

For additional discussion of possible tax legislative and regulatory risks that could affect our business, see Risk Factors.

Proposed Financial Crisis Responsibility Fee

The Administration s Revenue Proposal includes a proposal that would impose a Financial Crisis Responsibility Fee, or FCRF, on certain financial institutions with over $50 billion in consolidated assets, including the Company. The amount of the FCRF that would be imposed upon the Company under this proposal, in the event it is enacted into law, is unclear, but could be substantial.

ERISA

ERISA is a comprehensive federal statute that applies to U.S. employee benefit plans sponsored by private employers and labor unions. Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. ERISA provisions include reporting and disclosure rules, standards of conduct that apply to plan fiduciaries and prohibitions on transactions known as prohibited transactions, such as conflict-of-interest transactions and certain transactions between a benefit plan and a party in interest. ERISA also provides for a scheme of civil and criminal penalties and enforcement. Our insurance, asset management and retirement businesses provide services to employee benefit plans subject to ERISA, including services where we may act as an ERISA fiduciary. In addition to ERISA regulation of businesses providing products and services to

Table of Contents

ERISA plans, we become subject to ERISA s prohibited transaction rules for transactions with those plans, which may affect our ability to enter transactions, or the terms on which transactions may be entered, with those plans, even in businesses unrelated to those giving rise to party in interest status.

USA Patriot Act

The USA Patriot Act of 2001, enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the U.S. contain provisions that may be different, conflicting or more rigorous. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions require the implementation and maintenance of internal practices, procedures and controls.

Holding Company Regulation

Prudential Financial is subject to the insurance holding company laws in the states where our insurance subsidiaries are domiciled, which currently include New Jersey, Arizona, Connecticut, Indiana and Iowa, or are treated as commercially domiciled, such as New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by the state s insurance department.

Most states, including the states in which our U.S. insurance companies are domiciled, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer s holding company. Laws such as these that apply to us prevent any person from acquiring control of Prudential Financial or of our insurance subsidiaries unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. Under most states statutes, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of Prudential Financial without the prior approval of the insurance regulators of the states in which our U.S. insurance companies are domiciled will be in violation of these states laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator. In addition, many state insurance laws require prior notification to state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state.

Currently, there are several proposals to amend state insurance holding company laws to increase the scope of regulation of insurance holding companies (such as Prudential Financial). The National Association of Insurance Commissioners, or NAIC, has promulgated model laws for adoption in the United States that would provide for group wide supervision of Prudential Financial as an insurance holding company in addition to the current regulation of Prudential Financial s insurance subsidiaries. In addition, the International Association of Insurance Supervisors, or IAIS, is developing a model framework for the regulation of internationally active insurance groups that also contemplates group wide supervision across national boundaries. While the timing of their adoption and content will vary by jurisdiction, we have identified the following areas of focus in these model laws: (1) uniform standards for insurer corporate governance; (2) group-wide supervision of insurance holding companies; (3) adjustments to risk-based capital calculations to account for group-wide risks; and (4) additional regulatory and disclosure requirements for insurance holding companies. At this time, we cannot predict with any degree of certainty what additional capital requirements, compliance costs or other burdens these requirements would impose on Prudential Financial if adopted.

In 2012, Prudential Bank & Trust, FSB, (PB&T) limited its operations to trust services. On October 31, 2012, the FRB approved Prudential Financial s application to deregister as a savings and loan holding company and Prudential Financial and Prudential IBH Holdco, Inc. are no longer considered to be savings and loan holding companies subject, in that capacity, to the examination, enforcement and supervisory authority of the FRB. As a trust-only organization, PB&T does not have access to a Federal Reserve credit line, is not permitted to issue commercial loans or checking accounts and all or substantially all deposits, if any, must be trust funds received in a fiduciary capacity. PB&T is now regulated by the Office of the Comptroller of the Currency (OCC) as a federal savings association and Prudential Financial is subject to supervision by the OCC as to whether it serves as a source of strength to PB&T. We also provide trust services through Prudential Trust Company, a state-chartered trust company incorporated under the laws of the Commonwealth of Pennsylvania. Federal and state banking laws generally provide that no person may acquire control of Prudential Financial, and gain indirect control of either PB&T or Prudential Trust Company, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of Prudential Financial would be presumed to constitute control. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Prudential Financial, including through transactions, and in particular unsolicited transactions, that some shareholders of Prudential Financial might consider desirable.

Insurance Operations

State insurance laws regulate all aspects of our U.S. insurance businesses, and state insurance departments in the fifty states, the District of Columbia and various U.S. territories and possessions monitor our insurance operations. Prudential Insurance is domiciled in New Jersey and its principal insurance regulatory authority is the New Jersey Department of Banking and Insurance. Our other U.S. insurance companies are principally regulated by the insurance departments of the states in which they are domiciled. Generally, our insurance products must be approved by the insurance regulators in the state in which they are sold. Our insurance products are substantially affected by federal and state tax laws.

State Insurance Regulation

State insurance authorities have broad administrative powers with respect to all aspects of the insurance business including: licensing to transact business; licensing agents; admittance of assets to statutory surplus; regulating premium rates for certain insurance products; approving policy forms; regulating unfair trade and claims practices; establishing reserve requirements and solvency standards; fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; regulating the type, amounts and valuations of investments permitted and other matters; and regulating reinsurance transactions, including the role of captive reinsurers.

State insurance laws and regulations require our U.S. insurance companies to file financial statements with state insurance departments everywhere they do business, and the operations of our U.S. insurance companies and accounts are subject to examination by those departments at any time. Our U.S. insurance companies prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In February 2013, the New Jersey insurance regulator, along with the insurance regulators of Arizona, Connecticut, Indiana and Iowa substantially completed a coordinated risk focused financial examination for the five year period ended December 31, 2011 for all of our U.S. domestic insurance companies as part of the normal five year examination and found no material deficiencies as of the date of this filing.

Financial Regulation

Dividend Payment Limitations. The New Jersey insurance law and the insurance laws of the other states in which our insurance companies are domiciled regulate the amount of dividends that may be paid by Prudential Insurance and our other U.S. insurance companies. See Note 15 to the Consolidated Financial Statements for additional information.

Table of Contents

Risk-Based Capital. In order to enhance the regulation of insurers solvency, the NAIC adopted a model law to implement risk-based capital requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC s model law or a substantially similar law. The risk-based capital, or RBC, calculation, which regulators use to assess the sufficiency of an insurer s statutory capital, measures the risk characteristics of a company s assets, liabilities and certain off-balance sheet items. In general, RBC is calculated by applying factors to various asset, premium, claim, expense and reserve items. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy.

Insurance Reserves and Regulatory Capital. State insurance laws require us to analyze the adequacy of our reserves annually. The respective appointed actuaries for each of our life insurance companies must each submit an opinion that our reserves, when considered in light of the assets we hold with respect to those reserves, make adequate provision for our contractual obligations and related expenses.

The NAIC has developed a principles-based reserving approach for life insurance products. The timing and the effect of these changes are still uncertain since the changes have to be adopted by each state and the approach can be further modified prior to adoption.

Solvency Modernization Initiative. State insurance regulators have focused attention on U.S. insurance solvency regulation pursuant to the NAIC s Solvency Modernization Initiative. The Solvency Modernization Initiative focuses on the entire U.S. financial regulatory system and all aspects of financial regulation affecting insurance companies. Though broad in scope, the NAIC has stated that the Solvency Modernization Initiative will focus on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. This initiative has resulted in the recent adoption of the NAIC Risk Management and Own Risk and Solvency Assessment model act which, following enactment at the state level, will require larger insurers to, at least annually beginning in 2015, assess the adequacy of its and its group s risk management and current and future solvency position. We cannot predict the additional capital requirements or compliance costs these requirements may impose.

IRIS Tests. The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System, or IRIS, to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. None of our U.S. insurance companies is currently subject to regulatory scrutiny based on these ratios.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state are members and may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer s proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2012, 2011 and 2010, we paid approximately $2.4 million, $3.6 million and $0.8 million, respectively, in assessments pursuant to state insurance guaranty association laws. Many states offer a reimbursement of such assessments in the form of credits against future years premium taxes. In addition, in 2011, we agreed to make a voluntary contribution of $20 million to an insurance industry solvency fund, related to Executive Life Insurance Company of New York. While we cannot predict the amount and timing of any

Table of Contents

future assessments on our U.S. insurance companies under these laws, we have established reserves that we believe are adequate for future assessments relating to insurance companies that are currently subject to insolvency proceedings.

Federal and State Securities Regulation Affecting Insurance Operations

Our variable life insurance products, as well as our variable annuity and mutual fund products, generally are securities within the meaning of federal securities laws, that may be required to be registered under the federal securities laws and subject to regulation by the SEC and FINRA. Federal and some state securities regulation similar to that discussed below under Investment Products and Asset Management Operations and Securities and Commodities Regulation affect investment advice, sales and related activities with respect to these products.

Our mutual funds, and in certain states our variable life insurance and variable annuity products, are securities within the meaning of state securities laws. As securities, these products are subject to filing and certain other requirements. Also, sales activities with respect to these products generally are subject to state securities regulation. Such regulation may affect investment advice, sales and related activities for these products.

Investment and Retirement Products and Asset Management Operations

Our investment products and services are subject to federal and state securities, fiduciary, including ERISA, and other laws and regulations. The SEC, FINRA, CFTC, state securities commissions, state banking and insurance departments and the United States Department of Labor are the principal U.S. regulators that regulate our asset management operations. For a discussion of Dodd-Frank s impact on our investment products and asset management operations, see Dodd-Frank Wall Street Reform and Consumer Protection Act above.

Some of the separate account, mutual fund and other pooled investment products offered by our businesses, in addition to being registered under the Securities Act, are registered as investment companies under the Investment Company Act of 1940, as amended, and the shares of certain of these entities are qualified for sale in some states and the District of Columbia. Separate account investment products are also subject to state insurance regulation as described above. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to federal and state regulation. In addition, we have several subsidiaries that are investment advisers registered under the Investment Advisers Act of 1940, as amended. Our Prudential Agents and other employees, insofar as they sell products that are securities, are subject to the Exchange Act and to examination requirements and regulation by the SEC, FINRA and state securities commissioners. Regulation and examination requirements also extend to various Prudential entities that employ or control those individuals. The federal securities laws could also require re-approval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control.

Congress from time to time considers pension reform legislation that could decrease or increase the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable or favorable effect on our ability to earn revenues from these products and services. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain products we offer in connection with terminating or ongoing pension plans.

Securities and Commodities Regulation

We have subsidiaries that are broker-dealers, investment advisers, commodity pool operators or commodity trading advisers. The SEC, the CFTC, state securities authorities, FINRA, the National Futures Association (NFA), the Municipal Securities Rulemaking Board, and similar authorities are the principal regulators of these subsidiaries.

Table of Contents

Our broker-dealer and commodities affiliates are members of, and are subject to regulation by, self-regulatory organizations, including FINRA and the NFA. Self-regulatory organizations conduct examinations of, and have adopted rules governing, their members. In addition, state securities and certain other regulators have regulatory and oversight authority over our registered broker-dealers. Broker-dealers and their sales forces in the U.S. and in certain other jurisdictions are subject to regulations that cover many aspects of the securities business, including sales methods and trading practices. The regulations cover the suitability of investments for individual customers, use and safekeeping of customers funds and securities, capital adequacy, recordkeeping, financial reporting and the conduct of directors, officers and employees. The SEC, CFTC and other governmental agencies and self-regulatory organizations, as well as state securities commissions in the U.S., have the power to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of a broker-dealer, an investment adviser or commodities firm or its employees. Our U.S. registered broker-dealer subsidiaries are subject to federal net capital requirements that may limit the ability of these subsidiaries to pay dividends to Prudential Financial.

Privacy Regulation

We are subject to federal and state law and regulation that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of that information. State laws regulate use and disclosure of social security numbers. Federal and state laws require notice to affected individuals, law enforcement, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. Federal regulations require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft. Federal and state laws and regulations regulate the ability of financial institutions to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers. Federal law and regulation regulate the permissible uses of certain personal information, including consumer report information. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

Environmental Considerations

Federal, state and local environmental laws and regulations apply to our ownership and operation of real property. Inherent in owning and operating real property are the risks of hidden environmental liabilities and the costs of any required clean-up. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect our commercial mortgage lending business. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, in some states and under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, or CERCLA, we may be liable, in certain circumstances, as an owner or operator, for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us. We also risk environmental liability when we foreclose on a property mortgaged to us, although Federal legislation provides for a safe harbor from CERCLA liability for secured lenders that foreclose and sell the mortgaged real estate, provided that certain requirements are met. However, there are circumstances in which actions taken could still expose us to CERCLA liability. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments prior to taking title to real estate, whether through acquisition for investment, or through foreclosure on real estate collateralizing mortgages that we hold. Although unexpected environmental liabilities can always arise, we seek to minimize this risk by undertaking these environmental assessments and complying with our internal procedures, and as a result, we believe that any costs associated with compliance with environmental laws and regulations or any clean-up of properties would not have a material adverse effect on our results of operations.

31

Table of Contents

Unclaimed Property Laws

We are subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and we are subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see Note 23 to the Consolidated Financial Statements.

Regulation of our International Businesses

Our international businesses are subject to comprehensive regulation and supervision. As in the U.S., the purpose of these regulations is primarily to protect our customers and not necessarily our shareholders. These regulations may apply heightened scrutiny to non-domestic companies, which can reduce our flexibility as to intercompany transactions, investments and other aspects of business operations and adversely affect our liquidity and profitability. Many of the laws and regulations to which our international businesses are subject are regularly re-examined, in some instances resulting in comprehensive restatements of applicable laws, regulations and reorganization of supervising authorities. Existing or future laws or regulations may become more restrictive or otherwise adversely affect our operations as regulators seek to protect their financial systems from perceived systemic risk. Solvency regulatory approaches developed in Europe are being considered or adopted in jurisdictions such as Japan and Mexico. It is likely that the recent financial market dislocations will lead to changes in existing laws and regulations and regulatory frameworks, affecting our international business. In some instances, such jurisdictions may also impose different, conflicting or more rigorous laws and requirements, including regulations governing privacy, consumer protection, employee protection, corporate governance and capital adequacy. Changes such as these can increase compliance costs and potential regulatory exposure.

In addition, our international operations face political, legal, operational and other risks that we do not face in the U.S., including the risk of discriminatory regulation, labor issues in connection with workers associations and trade unions, nationalization or expropriation of assets, dividend limitations, price controls and currency exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies. Some jurisdictions in which we operate joint ventures restrict our maximum percentage of ownership, which exposes us to joint venture partner risks and limits our array of potential remedies.

Our international insurance operations are principally supervised by regulatory authorities in the jurisdictions in which they operate, including the Japanese Ministry of Finance and Financial Services Agency. We operate insurance companies in Japan, Korea, Taiwan, Mexico, Argentina, Brazil, Italy and Poland and have insurance operations in India and China through joint ventures. The insurance regulatory bodies for these businesses typically oversee such issues as company licensing, the licensing of insurance sales staff, insurance product approvals, sales practices, claims payment practices, permissible investments, solvency and capital adequacy, and insurance reserves, among other items. In some jurisdictions, for certain products, regulators will also mandate premium rates (or components of pricing) or minimum guaranteed interest rates. Periodic examinations of insurance company books and records, financial reporting requirements, market conduct examinations and policy filing requirements are among the techniques used by these regulators to supervise our non-U.S. insurance businesses.

In order to monitor insurers solvency, regulatory authorities in the jurisdictions in which we operate outside the U.S. generally establish some form of minimum solvency margin requirements for insurance companies, similar in concept to the RBC ratios that are employed by U.S. insurance regulators. These solvency margins are used by regulators to assess the sufficiency of an insurer s capital and claims-paying ability and include the impact of transactions with affiliated entities. The solvency margin ratios in certain jurisdictions are required to be disclosed to the public. Insurers that have less solvency margin than the regulators require are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy.

The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements that revised risk charges for certain assets and changed the manner in which an insurance company s core capital is calculated. These changes were effective for the fiscal year ending March 31, 2012. We anticipate further changes in solvency regulation from jurisdiction to jurisdiction based on regulatory developments in the U.S., the European Union, and recommendations by an international standard setting body for the insurance industry, as well as regulatory requirements for those companies deemed to be systemically important financial institutions (similar to Designated Financial Companies under Dodd-Frank).

The insurance regulatory bodies in some of the countries where our international insurance businesses are located regulate the amount of dividends that they can pay to shareholders. See Note 15 to the Consolidated Financial Statements for additional information regarding the ability of our international subsidiaries to pay dividends to Prudential Financial.

Our international operations are also supervised primarily by regulatory authorities in the countries in which they operate. We operate investment-related businesses in, among other jurisdictions, Japan, Taiwan, the United Kingdom, Hong Kong, Mexico, India, Germany and Singapore, and participate in investment-related joint ventures in Brazil, Italy and China. These businesses may provide investment-related products such as investment management products and services, mutual funds, and separately managed accounts. The regulatory authorities for these businesses typically oversee such issues as company licensing, the licensing of investment product sales staff, sales practices, solvency and capital adequacy, mutual fund product approvals and related disclosures, securities, commodities and related laws, among other items. In some cases, our international investment operations are also subject to U.S. securities laws and regulations.

Our international businesses may also be subject to U.S. laws governing businesses controlled by U.S. companies such as the Foreign Corrupt Practices Act and certain regulations issued by the U.S. Office of Foreign Asset Controls. In addition, under current U.S. law and regulations we may be prohibited from dealing with certain individuals or entities in certain circumstances and we may be required to monitor customer activities, which may affect our ability to attract and retain customers. Furthermore, certain of our businesses, particularly those with operations in the United Kingdom (U.K.), are also subject to the U.K. s Anti-Bribery Law, which governs interactions with both governmental and private commercial entities.

Certain of our international insurance operations, including those in Japan, may be subject to assessments, generally based on their proportionate share of business written in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. As we cannot predict the timing of future assessments, they may materially affect the results of operations of our international insurance operations in particular quarterly or annual periods. Under the Japanese insurance guaranty law, substantially similar to such laws in the U.S., all licensed life insurers in Japan are required to be members and are assessed, on a pre-funded basis, by the Japan Policyholders Protection Corporation, or PPC. These assessments generate a collective fund which is used to satisfy certain obligations of insolvent insurance companies to policyholders and claimants. The PPC assesses each member in an amount related to its proportionate share of new business written by all member insurers. For the years ended December 31, 2012, 2011 and 2010, we paid approximately $31 million, $29 million and $16 million, respectively, in assessments pursuant to Japanese insurance guaranty association laws.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could impact the amount of taxes that we pay or impact the sales of our products.

In 2010, Taiwan reduced the corporate tax rate from 20% to 17% for tax years beginning in or after 2010. On November 30, 2011, Japan enacted the 2011 corporate tax reform that decreased the national corporate tax rate from 30% to 28.05%, after taking into account the special reconstruction corporate tax, for tax years beginning on or after April, 1, 2012, and to 25.5% for tax years beginning on or after April 1, 2015. The carryforward period for net operating losses in Japan was increased from 7 to 9 years. Under the new legislation net operating losses can only offset 80% of a company s taxable income. On December 31, 2011 Korea rescinded the corporate tax decrease to 22% that was to be effective in 2012. Therefore, the Korean corporate tax rate remains at 24.2% for 2012 and thereafter.

Our international operations are often subject to value added tax and similar taxes in the countries in which they operate. On August 10, 2012, Japan enacted legislation to increase the 5% consumption tax to 8% in April 2014 and to 10% in October 2015. An increase to such tax rates could reduce our consolidated net income.

Table of Contents

On April 27, 2012, the Japan National Tax Authority (NTA) reduced the corporate tax deductibility of premiums paid for cancer products. Such a change has resulted in a decrease in the sale of such products in Japan.

Employees

As of December 31, 2012, we had 48,498 employees and sales associates, including 29,547 located outside of the U.S. We believe our relations with our employees and sales associates are satisfactory.

Available Information

Prudential Financial files periodic and current reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained through the SEC s website (www.sec.gov) or by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C. 20549 or calling the SEC at 1-800-SEC-0330.

You may also access our press releases, financial information and reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those Forms) online at www.investor.prudential.com. Copies of any documents on our website are available without charge, and reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward-Looking Statements above and the risks of our businesses described elsewhere in this Annual Report on Form 10-K.

Risks Relating to Economic, Market and Political Conditions

Market fluctuations and general economic, market and political conditions may adversely affect our business and profitability.

Our businesses and our results of operations may be materially adversely affected by conditions in the global financial markets and by economic conditions generally.

Even under relatively favorable market conditions, our insurance, annuity and investment products, as well as our investment returns and our access to and cost of financing, are sensitive to fixed income, equity, real estate and other market fluctuations and general economic, market and political conditions. These fluctuations and conditions could adversely affect our results of operations, financial position and liquidity, including in the following respects:

The profitability of many of our insurance and annuity products depends in part on the value of the separate accounts supporting these products, which fluctuate substantially depending on the foregoing conditions.

Market conditions resulting in reductions in the value of assets we manage or lower transaction volume have an adverse effect on the revenues and profitability of our asset management business, which depends on fees related primarily to the value of assets under management or transaction volume, and could further decrease the value of our strategic investments.

Table of Contents

A change in market conditions, such as high inflation and high interest rates, could cause a change in consumer sentiment and behavior adversely affecting sales and persistency of our savings and protection products. Conversely, low inflation and low interest rates could cause persistency of these products to vary from that anticipated and adversely affect profitability (as further described below). Similarly, changing economic conditions and unfavorable public perception of financial institutions can influence customer behavior, including increasing claims or surrenders in certain product lines.

Sales of our investment-based and asset management products and services may decline, and lapses and surrenders of variable life and annuity products and withdrawals of assets from other investment products may increase if a market downturn, increased market volatility or other market conditions result in customers becoming dissatisfied with their investments or products.

A market decline could further result in guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values or our pricing assumptions would support, requiring us to materially increase reserves for such products, and may cause customers to retain contracts in force in order to benefit from the guarantees, thereby increasing their cost to us. Any increased cost may or may not be more than offset by the favorable impact of greater persistency from prolonged fee streams. Our valuation of the liabilities for the minimum benefits contained in many of our variable annuity products requires us to consider the market perception of our risk of non-performance, and a decrease in our own credit spreads resulting from ratings upgrades or other events or market conditions could cause the recorded value of these liabilities to increase, which in turn could adversely affect our results of operations and financial position.

Market conditions determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect the profitability of future business or our willingness to write future business.

Derivative instruments we hold to hedge and manage foreign exchange risk, interest rate and equity risks associated with our products and businesses, and other risks might not perform as intended or expected resulting in higher realized losses and unforeseen stresses on liquidity. Market conditions can limit availability of hedging instruments, require us to post additional collateral, and also further increase the cost of executing product related hedges and such costs may not be recovered in the pricing of the underlying products being hedged. Our derivative-based hedging strategies also rely on the performance of counterparties to such derivatives. These counterparties may fail to perform for various reasons resulting in losses on uncollateralized positions.

We have significant investment and derivative portfolios, including but not limited to corporate and asset-backed securities, foreign government securities (primarily that of the Japanese government), equities and commercial real estate. Economic conditions as well as adverse capital market conditions, including a lack of buyers in the marketplace, volatility, credit spread changes, benchmark interest rate changes, changes in foreign currency exchange rates and declines in value of underlying collateral will impact the credit quality, liquidity and value of our investments and derivatives, potentially resulting in higher capital charges and unrealized or realized losses. Valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on our results of operations or financial condition, and in certain cases under U.S. GAAP such period to period changes in the value of investments are not recognized in our results of operations or consolidated statements of financial position.

Opportunities for investment of available funds at appropriate returns may be limited, including due to the current low interest rate environment, a diminished securitization market or other factors, with a possible negative impact on our overall results. Limited opportunities for attractive investments may lead to holding cash for long periods of time and increased use of derivatives for duration management and other portfolio management purposes. The increased use of derivatives may increase the volatility of our U.S. GAAP results and our statutory capital.

Regardless of market conditions, certain investments we hold, including private bonds and commercial mortgages, are relatively illiquid. If we needed to sell these investments, we may have difficulty doing so in a timely manner at a price that we could otherwise realize.

Table of Contents

Certain features of our products and components of investment strategies depend on active and liquid markets, and, if market liquidity is strained, these may not perform as intended.

Fluctuations in our operating results and the impact on our investment portfolio may impact the Company s tax profile and its ability to optimally utilize tax attributes.

Adverse developments in the Japanese economy, including but not limited to the effects of higher inflation, interest rate volatility, changes in the Japan sovereign credit rating, and material changes in yen/U.S. Dollar exchange rates may adversely affect the value of our investments, results of operations and financial condition.

Adverse European market, economic and financial conditions have had, and are likely to continue to have, a negative impact on global economic activity and financial markets. These conditions, should they persist or worsen, could adversely affect our investment results, results of operations and financial position.

Adverse developments in the U.S. or global economy resulting from the continuing uncertainty about the Federal Reserve s monetary policy and the ongoing debate over the federal debt ceiling and its temporary suspension, sequestration (the automatic reduction in defense and non-defense spending) and the funding of the U.S. government operating under a temporary resolution could adversely affect our investment results, results of operations and financial position.

Interest rate fluctuations or prolonged periods of low interest rates could adversely affect our businesses and profitability and require us to increase reserves and statutory capital.

Our insurance and annuity products and certain of our investment products, and our investment returns, are sensitive to interest rate fluctuations, and changes in interest rates could adversely affect our investment returns and results of operations, including in the following respects:

Some of our products expose us to the risk that changes in interest rates will reduce the spread between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on our general account investments supporting the contracts. When interest rates decline, we have to reinvest in lower yielding instruments, potentially reducing net investment income. Since many of our policies and contracts have guaranteed minimum interest or crediting rates or limit the resetting of interest rates, the spreads could decrease and potentially become negative, or go further negative. When interest rates rise, we may not be able to replace the assets in our general account as quickly with the higher yielding assets needed to fund the higher crediting rates necessary to keep these products and contracts competitive. In addition, rising interest rates could cause a decline in the market value of fixed income assets the Company manages which in turn could result in lower asset management fees earned.

Changes in interest rates can also result in potential losses in our investment activities in which we borrow funds and purchase investments to earn additional spread income on the borrowed funds.

When interest rates rise, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns, requiring us to sell investment assets potentially resulting in realized investment losses, or requiring us to accelerate the amortization of DAC, DSI or VOBA (each defined below). In addition, increasing interest rates could cause capital strain for Japanese statutory reporting because the carrying value of bonds classified as available-for-sale would decline while the carrying value of liabilities would generally remain unchanged.

A decline in interest rates accompanied by unexpected prepayments of certain investments could require us to reinvest at lower rates and reduce our profitability. An increase in interest rates accompanied by unexpected extensions of certain lower yielding investments could reduce our profitability.

Changes in interest rates coupled with accelerated client withdrawals for certain products can result in increased costs associated with our guarantees.

Changes in the relationship between long-term and short-term interest rates could adversely affect the profitability of some of our products.

Changes in interest rates could increase our costs of financing.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration that is approximately equal to the duration of our estimated liability cash flow profile. However, this estimate of the liability cash flow profile is complex and could turn out to be inaccurate, especially during volatile times. In addition, there are practical and capital market limitations on our ability to accomplish this matching. Due to these and other factors we may need to liquidate investments prior to maturity at a loss in order to satisfy liabilities or be forced to reinvest funds in a lower rate environment. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to effectively mitigate, and we may sometimes choose based on economic considerations and other factors not to fully mitigate, the interest rate risk of our assets relative to our liabilities.

For certain of our products, a delay between the time we make changes in interest rate and other assumptions used for product pricing and the time we are able to reflect these assumptions in products available for sale could negatively impact the long-term profitability of products sold during the intervening period.

Recent periods have been characterized by low interest rates. A prolonged period during which interest rates remain at levels lower than those anticipated in our pricing may result in greater costs associated with certain of our product features which guarantee death benefits or income streams for stated periods or for life; higher costs for derivative instruments used to hedge certain of our product risks; or shortfalls in investment income on assets supporting policy obligations, each of which may require us to record charges to increase reserves. In addition to compressing spreads and reducing net investment income, such an environment may cause policies to remain in force for longer periods than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and resulting in lower overall returns on business in force. Reflecting these impacts in recoverability and loss recognition testing under U.S. GAAP may require us to accelerate the amortization of DAC, DSI or VOBA as noted above, as well as to increase required reserves for future policyholder benefits. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and a prolonged period of low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

Adverse capital market conditions could significantly affect our ability to meet liquidity needs, our access to capital and our cost of capital, including capital that may be required by our subsidiaries. Under such conditions, we may seek additional debt or equity capital but may be unable to obtain such.

Adverse capital market conditions could affect the availability and cost of borrowed funds and could impact our ability to refinance existing borrowings, thereby ultimately impacting our profitability and ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock and replace certain maturing debt obligations. During times of market stress, our internal sources of liquidity may prove to be insufficient and some of our alternative sources of liquidity, such as commercial paper issuance, securities lending and repurchase arrangements and other forms of borrowings in the capital markets, may be unavailable to us.

Disruptions, uncertainty and volatility in the financial markets may force us to delay raising capital, issue shorter tenor securities than would be optimal, bear an unattractive cost of capital or be unable to raise capital at any price, which could decrease our profitability and significantly reduce our financial flexibility.

We may seek additional debt or equity financing to satisfy our needs. However, the availability of additional financing depends on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, and our credit ratings and credit capacity. We may not be able to successfully obtain additional financing on favorable terms, or at all. Actions we might take to access financing may in turn cause rating agencies to reevaluate our ratings. Further, any future equity offerings would dilute the ownership interest of existing shareholders.

Disruptions in the capital markets could adversely affect Prudential Financial s and its subsidiaries ability to access sources of liquidity, as well as threaten to reduce our capital below a level that is consistent with our existing ratings objectives. Therefore, we may need to take actions, which may include but are not limited to: (1) further access external sources of capital, including the debt or equity markets; (2) reduce or eliminate future shareholder dividends on our Common Stock; (3) undertake additional capital management activities, including reinsurance transactions; (4) limit or curtail sales of certain products and/or restructure existing products; (5) undertake further asset sales or internal asset transfers; (6) seek temporary or permanent changes to regulatory rules; and (7) maintain greater levels of cash balances or for longer periods thereby reducing investment returns. Certain of these actions may require regulatory approval and/or agreement of counterparties which are outside of our control or have economic costs associated with them.

Fluctuations in foreign currency exchange rates could adversely affect our profitability, financial condition and cash flow, as well as increase the volatility of our results of operations under U.S. GAAP.

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are exposed to foreign currency exchange risks that could reduce the U.S. dollar equivalent earnings and equity of these operations. We enter into derivative contracts in order to hedge the future income of certain of our international subsidiaries. Further, our Japanese subsidiaries hold U.S. dollar-denominated assets as a way for us to mitigate the effect of fluctuations in the yen exchange rate on our U.S. dollar-equivalent investment in these subsidiaries. We seek to mitigate any volatility in the local solvency margins of our Japanese subsidiaries due to holding these U.S. dollar-denominated investments by entering into inter-company currency derivatives. Currency fluctuations could adversely affect our results of operations, cash flows or financial condition as a result of these derivative positions or due to foreign income or equity investments that are not hedged. A significant strengthening of the yen could adversely impact the value of our hedges and U.S. dollar-denominated investments held in our Japanese subsidiaries and could result in additional liquidity or capital needs for our International Insurance operations.

Our Japanese insurance operations offer products denominated in non-yen currencies, with the liabilities for these products supported by investments denominated in the corresponding currencies. While the impact from foreign currency exchange rate movements on these non-yen denominated assets and liabilities are economically matched, the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements differs, resulting in volatility in our net income under U.S. GAAP. For example, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in Accumulated other comprehensive income (loss), or AOCI, whereas the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, and the related changes in value are recorded in earnings within Asset management fees and other income.

We hold investments denominated in foreign currencies in the general account of our domestic insurance subsidiaries. We generally seek to hedge this foreign currency exposure but there is no assurance that we will fully hedge this exposure or that such hedges will be effective. The value and liquidity of our foreign currency investments could be adversely affected by local adverse market, economic and financial conditions. For example, our investments denominated in euro could be adversely affected by the recent unfavorable economic conditions in Europe, including due to potential changes in the euro or to the structure or membership of the European Monetary Union.

Risks Relating to Estimates, Assumptions and Valuations

Our profitability may decline if mortality experience, longevity experience, morbidity experience, persistency experience or utilization experience differ significantly from our pricing expectations.

We set prices for many of our insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality rates, or likelihood of death, longevity rates, or likelihood of survival (including the effect of improvement in life expectancy trends), and morbidity rates, or likelihood of sickness or disability, of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality, longevity, or morbidity could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population, treatment patterns and technologies for disease or disability, the economic environment, or other factors. Pricing of our insurance and deferred annuity products are also based in part upon expected persistency of these products, which is the probability that a policy or contract will remain in force from one period to the next. Persistency within our Individual Annuities business may be significantly impacted by the value of guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values in light of poor equity market performance or extended periods of low interest rates as well as other factors. Persistency could be adversely affected generally by developments affecting client perception of us, including perceptions arising from adverse publicity. Many of our products also provide our customers with wide flexibility with respect to the amount and timing of premium deposits and/or the amount and timing of withdrawals from the policy s value. Results may vary based on differences between actual and expected premium deposits and withdrawals for these products, especially if these product features are relatively new to the marketplace. The pricing of certain of our variable annuity products that contain optional living benefit guarantees is also based on assumptions about utilization rates, or the percentage of contracts that will utilize the benefit during the contract duration, including the timing of the first lifetime income withdrawal. Results may vary based on differences between actual and expected occurrence and timing of the benefit utilization. The development of a secondary market for life insurance, including life settlements or viaticals and investor owned life insurance, and third-party investor strategies in the annuities business, could adversely affect the profitability of existing business and our pricing assumptions for new business.

Significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the adjustments permitted under the terms of the policies or contracts may not be sufficient to maintain profitability or may cause the policies or contracts to lapse. For our long-term care insurance products, our assumptions for reserves for future policy benefits have factored in our best estimate of the timing and amount of anticipated and yet-to-be-filed premium increases which will require state approval. Our actual experience obtaining pricing increases could be materially different than what we have assumed, resulting in further policy liability increases which could be material. Many of our products do not permit us to increase premiums or adjust other charges and credits or limit those adjustments during the life of the policy or contract. Even if permitted under the policy or contract, we may not be able or willing to raise premiums or adjust other charges sufficiently, or at all, for regulatory or competitive reasons.

If our reserves for future policyholder benefits and claims are inadequate, we may be required to increase our reserves, which would adversely affect our results of operations and financial condition.

We establish actuarially-determined reserves to pay future policyholder benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on data and models that include many assumptions and projections which are inherently uncertain and involve the exercise of significant judgment, including as to the levels of and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), retirement, mortality, longevity, morbidity and persistency. We cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will be sufficient for payment of benefits and claims. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase premiums where we are able to do so or increase our reserves and incur income statement charges, which would adversely affect our results of operations and financial condition.

For certain of our products, market performance and interest rates (as well as the regulatory environment, as discussed further below) impact the level of statutory reserves and statutory capital we are required to hold, and may have an adverse effect on returns on capital associated with these products. We finance noneconomic reserves associated with our Individual Life business. Marketplace capacity for reserve funding structures may be limited as a result of market conditions generally. Our ability to efficiently manage capital and economic reserve levels may be impacted, thereby impacting profitability and return on capital.

We may be required to accelerate the amortization of deferred policy acquisition costs, or DAC, deferred sales inducements, or DSI, or value of business acquired, or VOBA, or recognize impairment in the value of our goodwill or certain investments, or be required to establish a valuation allowance against deferred income tax assets, any of which could adversely affect our results of operations and financial condition.

Deferred policy acquisition costs, or DAC, represent the costs that vary with and are directly related to the acquisition of new and renewal insurance and annuity contracts, and we amortize these costs over the expected lives of the contracts. Deferred sales inducements, or DSI, represent amounts that are credited to a policyholder s account balance as an inducement to purchase the contract, and we amortize these costs over the expected lives of the contracts. Value of business acquired, or VOBA, represents the present value of future profits embedded in acquired insurance, annuity and investment-type contracts and is amortized over the expected effective lives of the acquired contracts. Management, on an ongoing basis, tests the DAC, DSI and VOBA recorded on our balance sheet to determine if these amounts are recoverable under current assumptions. In addition, we regularly review the estimates and assumptions underlying DAC, DSI and VOBA for those products for which we amortize DAC, DSI and VOBA in proportion to gross profits or gross margins. Given changes in facts and circumstances, these tests and reviews could lead to reductions in DAC, DSI and/or VOBA that could have an adverse effect on the results of our operations and our financial condition. Among other things, significant or sustained equity market declines as well as investment losses could result in acceleration of amortization of the DAC, DSI and VOBA related to variable annuity and variable universal life contracts, resulting in a charge to income. As discussed earlier, the amortization of DAC, DSI and VOBA are also sensitive to changes in interest rates.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is assessed annually for potential impairment, or more frequently if conditions warrant, by comparing the carrying value (equity attributed to a business to support its risk) of a business to its estimated fair value at that date. As of December 31, 2012, we had goodwill balances related to our Retirement reporting unit, our Asset Management reporting unit and our International Insurance reporting unit. Market declines or other events impacting the fair value of these businesses, or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

We have operating equity method investments within our International Insurance and Asset Management segments and Corporate and Other operations. Declines in the fair value of these investments may require that we review the remaining carrying value of these investments for potential impairment, and such review could result in impairments and charges to income.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management s determination include the performance of the business including the geographic and legal entity source of our income, the ability to generate capital gains from a variety of sources, and tax planning strategies. If based on available information, it is more likely than not that the deferred income tax asset will not be realized then a valuation allowance must be established with a corresponding charge to net income. Such charges could have a material adverse effect on our results of operations or financial position.

Changes in our discount rate, expected rate of return, life expectancy and expected compensation increase assumptions for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability.

We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, life expectancy of plan participants and expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment, may result in increased expenses and reduce our profitability.

Our valuation of fixed maturity, equity and trading securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

During periods of market disruption, it may be difficult to value certain of our investment securities, such as sub-prime mortgage-backed securities, if trading becomes less frequent and/or market data becomes less observable. There may be cases where certain assets in normally active markets with significant observable data become inactive with insufficient observable data due to the current financial environment or market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value may have a material adverse effect on our results of operations or financial condition.

Table of Contents

The decision on whether to record an other-than-temporary impairment or write-down is determined in part by management s assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability of the particular security. Management s conclusions on such assessments are highly judgmental and include assumptions and projections of future cash flows which may ultimately prove to be incorrect as assumptions, facts and circumstances change.

Credit and Counterparty Risks

An inability to access our credit facilities could have a material adverse effect on our financial condition and results of operations.

We maintain committed unsecured revolving credit facilities. We rely on these credit facilities as a potential source of liquidity which could be critical in enabling us to meet our obligations as they come due, particularly during periods when alternative sources of liquidity are limited. Our ability to borrow under these facilities is conditioned on our satisfaction of covenants and other requirements contained in the facilities, such as Prudential Financial s maintenance of a prescribed minimum level of consolidated net worth calculated in accordance with the applicable credit agreement. Our failure to satisfy these and other requirements contained in the credit facilities would restrict our access to the facilities when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

A downgrade or potential downgrade in our financial strength or credit ratings could limit our ability to market products, require us to post collateral, increase our borrowing costs and/or hurt our relationships with creditors, trading counterparties or reinsurers and restrict our access to alternative sources of liquidity.

A downgrade in our financial strength or credit ratings could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements, and/or hurt our relationships with creditors, distributors, reinsurers or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities, including insurance liabilities that are classified as embedded derivatives under U.S. GAAP. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could result in additional collateral requirements or other required payments under certain agreements, including derivative agreements, which are eligible to be satisfied in cash or by posting securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels at December 31, 2012 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated collateral posting requirements or payments under such agreements of approximately $77 million. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.7 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate, that we estimate would result in annual cash outflows of approximately $14 million, or collateral posting in the form of cash or securities to be held in a trust.

Prudential Insurance has been a member of the Federal Home Loan Bank of New York, or FHLBNY, since June 2008. Membership allows Prudential Insurance access to 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. Under FHLBNY guidelines, if Prudential Insurance s financial strength ratings decline below A/A2/A Stable by S&P, Moody s and Fitch, respectively, and the FHLBNY does not receive written assurances from the

New Jersey Department of Banking and Insurance regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Although Prudential Insurance s ratings are currently at or above the required minimum levels, there can be no assurance that the ratings will remain at these levels in the future.

We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without notice by any rating agency.

Losses due to defaults by others, including issuers of investment securities or reinsurance, bond insurers and derivative instrument counterparties, downgrades in the ratings of securities we hold or of bond insurers, insolvencies of insurers in jurisdictions where we write business and other factors affecting our counterparties or the value of their securities could adversely affect the value of our investments, the realization of amounts contractually owed to us, result in assessments or additional statutory capital requirements or reduce our profitability or sources of liquidity.

Issuers and borrowers whose securities or loans we hold, customers, vendors, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors, including bond insurers, may default on their obligations to us or be unable to perform service functions that are significant to our business due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such defaults, could have an adverse effect on our results of operations and financial condition. A downgrade in the ratings of bond insurers could also result in declines in the value of our fixed maturity investments supported by guarantees from bond insurers.

In addition, we use derivative instruments to hedge various risks, including certain guaranteed minimum benefits contained in many of our variable annuity products. We enter into a variety of derivative instruments, including options, forwards, interest rate, credit default and currency swaps with a number of counterparties. Amounts that we expect to collect under current and future contracts, including, but not limited to reinsurance contracts, are subject to counterparty risk. Our obligations under our products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties, including reinsurers, do not pay us. Such defaults could have a material adverse effect on our financial condition and results of operations.

Under state insurance guaranty association laws and similar laws in international jurisdictions, we are subject to assessments, based on the share of business we write in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants.

We use reinsurance as part of our capital management with respect to our Closed Block Business. Ratings downgrades or financial difficulties of reinsurers may require us to utilize additional capital with respect to the business.

Certain Product Related Risks

Guarantees within certain of our products that protect policyholders may decrease our earnings or increase the volatility of our results of operations or financial position under U.S. GAAP if our hedging or risk management strategies prove ineffective or insufficient.

Certain of our products, particularly our variable annuity products, include guarantees of income streams for stated periods or for life. Downturns in equity markets, increased equity volatility, or (as discussed above) reduced interest rates could result in an increase in the valuation of liabilities associated with such products, resulting in increases in reserves and reductions in net income. We use a variety of hedging and risk management strategies, including product features, to mitigate these risks in part. These strategies may, however, not be fully effective. We may also choose not to fully hedge these risks. Hedging instruments may not effectively offset the costs of guarantees or may otherwise be insufficient in relation to our obligations. Hedging instruments also may not change in value correspondingly with associated liabilities due to equity market or interest rate conditions or other reasons. We sometimes choose to hedge these risks on a basis that does not correspond to their anticipated or actual impact upon our results of operations or financial position under U.S. GAAP. Changes from period to period in the valuation of these policy benefits, and in the amount of our obligations effectively hedged, will result in volatility in our results of operations and financial position under U.S. GAAP. Estimates and assumptions we make in connection with hedging activities may fail to reflect or correspond to our actual long-term exposure in respect of our guarantees. Further, the risk of increases in the costs of our guarantees not covered by our hedging and other capital and risk management strategies may become more significant due to changes in policyholder behavior driven by market conditions or other factors. The above factors, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity.

We may not be able to mitigate the reserve strain associated with Regulation XXX and Guideline AXXX, potentially resulting in a negative impact on our capital position or in a need to increase prices and/or reduce sales of term or universal life products.

The states of domicile of our domestic insurance subsidiaries have in place a regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, and a supporting Guideline entitled The Application of the Valuation of Life Insurance Policies, commonly known as Guideline AXXX. The Regulation and supporting Guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is excessive, and we have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX and Guideline AXXX on our term and universal life insurance business. As we continue to underwrite term and universal life business, we expect to have borrowing needs to finance statutory reserves required under Regulation XXX and Guideline AXXX. However, if we are unsuccessful in obtaining additional financing as a result of market conditions or otherwise, this could require us to increase prices and or/reduce our sales of term or universal life products and/or have a negative impact on our capital position.

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

Although we distribute our products through a wide variety of distribution channels, we do maintain relationships with certain key distributors. For example, a significant amount of our sales in Japan through banks is derived through a single major Japanese bank and a significant portion of our sales in Japan through Life Consultants is derived through a single association relationship. We periodically negotiate the terms of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to reduce or terminate their distribution relationships with us, including for such reasons as adverse developments in our business, adverse rating agency actions or concerns about market-related risks. We are also at risk that key distribution partners may merge, change their business models in ways that affect how our products are sold, or terminate their distribution contracts with us, or that new distribution channels could emerge and adversely impact the effectiveness of our distribution efforts. An increase in bank and broker-dealer consolidation activity could increase competition for access to distributors, result in greater distribution expenses and impair our ability to market products through these channels. Consolidation of distributors and/or other industry changes may also increase the likelihood that distributors will try to renegotiate the terms of any existing selling agreements to terms less favorable to us.

When our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution despite our training and compliance programs. If our products are distributed by such firms in an inappropriate manner, or to customers for whom they are unsuitable, we may suffer reputational and other harm to our business.

Table of Contents

Regulatory and Legal Risks

Our businesses are heavily regulated and changes in regulation may reduce our profitability.

Our businesses are subject to comprehensive regulation and supervision. The purpose of this regulation is primarily to protect our customers and not necessarily our shareholders. Many of the laws and regulations to which we are subject, including those to which our international businesses are subject, are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. The financial market dislocations we have experienced have produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally.

Prudential Financial is subject to the rules and regulations of the SEC and the NYSE relating to public reporting and disclosure, securities trading, accounting and financial reporting, and corporate governance matters. The Sarbanes-Oxley Act of 2002 and rules and regulations adopted in furtherance of that Act have substantially increased the requirements in these and other areas for public companies such as Prudential Financial. Our internal controls over financial reporting may have gaps or other deficiencies and there is no assurance that significant deficiencies or material weaknesses in internal controls may not occur in the future. Any such gaps or deficiencies may require significant resources to remediate and may also expose the Company to litigation, regulatory fines or penalties or other losses.

Many insurance regulatory and other governmental or self-regulatory bodies have the authority to review our products and business practices and those of our agents and employees and to bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could adversely affect our business, reputation, results of operations or financial condition.

Congress from time to time enacts pension reform legislation that could decrease or increase the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable or favorable effect on our ability to earn revenues from these products and services. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services.

Insurance regulators have implemented changes in the way in which companies must determine statutory reserves for variable annuities and products with similar guarantees as of the end of 2009. Insurance regulators continue to proceed to develop a principles based reserving approach for life insurance products. The timing and the effect of these changes are still uncertain.

Insurance regulators are reviewing life insurers use of captive reinsurance companies. We cannot predict what, if any, changes may result from this review. If applicable insurance laws are changed in a way that impairs the use of captive reinsurance companies, our financial results and liquidity and capital position may be adversely affected. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Captive Reinsurance Companies for information on our use of captive reinsurance companies.

The NAIC is reviewing life insurers use of separate accounts that are insulated (where assets of the separate account equal to the reserves and other contract liabilities with respect to the account may not be charged with liabilities arising out of any other business of the company) for products that are not variable, which might lead to a recommendation against the allowance of insulation for certain products. We cannot predict what, if any, changes may result from this review and possible recommendations. If applicable insurance laws are changed in a way that impairs the use of insulation for certain contracts, our ability to compete effectively in certain markets may be adversely affected. In addition, our financial results and liquidity and capital position may also be adversely affected.

The failure of Prudential Insurance and our other domestic insurance subsidiaries to meet applicable Risk Based Capital, or RBC, requirements or minimum statutory capital and surplus requirements could subject those subsidiaries to further examination or corrective action by state insurance regulators. The failure to maintain the

RBC ratios of Prudential Insurance and our other domestic insurance subsidiaries at desired levels could also adversely impact our competitive position, including as a result of downgrades to our financial strength ratings. Our international insurance companies are subject to conceptually similar measures of capital adequacy, including solvency margin ratios for our Japanese insurance companies, and we face similar risks as those described for our domestic companies in the event that we are unable to maintain these measures at adequate levels. Further, adverse financial performance in the Closed Block Business in Prudential Insurance, including adverse investment performance, may adversely affect Prudential Insurance s RBC ratios, although dividends to Closed Block policyholders may be subsequently adjusted to reflect such performance.

Currently, there are several proposals to amend state insurance holding company laws to increase the scope of the regulation of insurance holding companies (such as Prudential Financial). These proposals include imposing standards for insurer corporate governance, risk management, group-wide supervision of insurance holding companies, adjustments to risk-based capital calculations to account for group-wide risks, and additional regulatory and disclosure requirements for insurance holding companies. In addition, state insurance regulators have focused attention on U.S. insurance solvency regulation pursuant to the NAIC s Solvency Modernization Initiative , including regulatory review of companies risk management practices and analyses. At this time, we cannot predict with any degree of certainty what additional capital requirements, compliance costs or other burdens these requirements may impose on Prudential Financial.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our financial condition or results of operations.

See Business Regulation for discussion of regulation of our businesses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act has and will subject us to substantial additional federal regulation and we cannot predict the effect on our business, results of operations, cash flows or financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), subjects us to substantial federal regulation. Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations implementing the law, a process that is underway and expected to continue over the next few years. We cannot predict with any certainty the requirements of the regulations recently or not yet adopted or how Dodd-Frank and such regulations will affect the financial markets generally, impact our business, credit or financial strength ratings, results of operations, cash flows or financial condition or advise or require us to hold or raise additional capital. Key aspects of Dodd-Frank s impact on us include:

On October 19, 2012, we received notice that we are under consideration by the Financial Stability Oversight Council (Council) for a proposed determination that Prudential Financial should be subject to stricter prudential regulatory standards and supervision by the Board of Governors of the Federal Reserve System (FRB) pursuant to Dodd-Frank as a Designated Financial Company. We cannot predict whether Prudential Financial will be designated as a Designated Financial Company. If so designated, we would become subject to stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. Failure to meet defined measures of financial condition could result in substantial restrictions on our business and capital distributions. We would also become subject to stress tests to be promulgated by the FRB which could cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength.

If designated, we could also be subject, pursuant to future FRB rulemaking, to additional capital requirements for, and quantitative limits on, proprietary trading and sponsorship of, and investment in, hedge, private equity and other covered funds.

The Council could recommend new or heightened standards and safeguards for activities or practices we and other financial services companies engage in. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

Table of Contents

Dodd-Frank creates a new framework for regulation of the over-the-counter (OTC) derivatives markets which could impact various activities of Prudential Global Funding (PGF), Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). Final regulations adopted could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our clients or cause us to alter our hedging strategy or implementation thereof or increase and/or change the composition of the risks we do not hedge.

Title II of Dodd-Frank provides that a financial company such as Prudential Financial may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the FDIC as receiver, upon a determination that the company is in default or in danger of default and presents a systemic risk to U.S. financial stability. We cannot predict how creditors of Prudential Financial or its insurance and non-insurance subsidiaries, including the holders of Prudential Financial debt, will evaluate this potential or whether it will impact our financing or hedging costs.

See Business Regulation for further discussion of the impact of Dodd-Frank on our businesses.

Foreign governmental actions could subject us to substantial additional regulation.

In addition to the adoption of Dodd-Frank in the United States, the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, and the G20 have issued a series of proposals intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency (FSA) in Japan, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom. In addition, the prudential regulation of insurance and reinsurance companies across the European Economic Area (EEA) is due for significant change under the Solvency II Directive, which was adopted on November 25, 2009 and could come into force as early as January 2014. This new regime will effect a full revision of the insurance industry s solvency framework and prudential regime and may have significant implications for non-European insurance groups, like ourselves, that have established insurance undertakings within the EEA. Additionally, the IAIS is currently evaluating whether certain insurance groups, such as Prudential Financial, should be designated as global systemically important insurers or GSIIs. Insurance groups designated as GSIIs will be subject to enhanced group supervision, higher capital requirements and enhanced resolution regimes.

We cannot predict with any certainty the effect these initiatives may have on the financial markets or on our business, results of operations, cash flows and financial condition.

Adverse market, economic and financial conditions in Europe have given rise to a perceived risk of defaults on the government securities of certain European countries and potentially by financial institutions with significant direct or indirect exposure to such government securities. Further regulatory initiatives may develop in response to these conditions and related political and economic events such as possible changes in the euro or to the structure or membership of the European Monetary Union.

Changes in accounting requirements could negatively impact our reported results of operations and our reported financial position.

Accounting standards are continuously evolving and subject to change. For example, consideration has been given to requiring companies like Prudential Financial to report financial results in accordance with International Financial Reporting Standards (IFRS) as issued by the

International Accounting Standards Board rather than U.S. GAAP. Regardless of whether the SEC requires IFRS, U.S. GAAP may undergo extensive changes as a result of current standard setting initiatives of the Financial Accounting Standards Board. These and other changes in accounting standards may impose special demands on issuers in areas such as corporate governance, internal controls and disclosure. Changes in accounting standards, or their interpretation, may negatively affect our reported results of operations and our reported financial condition.

Table of Contents

Changes in U.S. federal income tax law or in the income tax laws of other jurisdictions in which we operate could make some of our products less attractive to consumers and increase our tax costs.

There is uncertainty regarding U.S. taxes both for individuals and corporations. Discussions in Washington continue concerning the need to reform the tax code, primarily by lowering the tax rates and broadening the base by reducing or eliminating certain tax expenditures. Reducing or eliminating certain tax expenditures could make our products less attractive to customers. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products.

However even in the absence of overall tax reform, the large federal deficit, as well as the budget constraints faced by many states and localities, increases the likelihood that Congress and state and local governments will raise revenue by enacting legislation increasing the taxes paid by individuals and corporations. This can be accomplished either by raising rates or otherwise changing the tax rules.

Congress from time to time considers legislation that could make our products less attractive to consumers. Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. While higher tax rates increase the benefits of tax deferral on the build-up of value of annuities and life insurance, making our products more attractive to consumers, legislation that reduces or eliminates deferral would have a potential negative effect on our products. In addition, changes in the tax rules that result in higher corporate taxes will increase the Company s actual tax expense, thereby reducing earnings.

Congress, as well as state and local governments, also considers from time to time legislation that could increase the amount of corporate taxes we pay, thereby reducing earnings. For example, changes in the law relating to tax reserving methodologies for term life or universal life insurance policies with secondary guarantees or other products could result in higher current taxes.

The Obama Administration s Revenue Proposals include proposals which, if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would affect the treatment of corporate owned life insurance policies, or COLI, by limiting the availability of certain interest deductions for companies that purchase those policies. The proposals would also change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts that is eligible for the dividends received deduction, or DRD. The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and the expected tax amount determined using the federal statutory tax rate of 35%. If proposals of this type were enacted, the Company s sale of COLI, variable annuities, and variable life insurance products could be adversely affected and the Company s actual tax expense could increase, thereby reducing earnings.

The Administration s Revenue Proposals also include changes to the method by which U.S. multinational corporations claim foreign tax credits and the timing of the deduction for interest expense that is allocable to foreign-source income. If proposals of this type were enacted, the Company s actual tax expense could increase, thereby reducing earnings.

The products we sell have different tax characteristics, in some cases generating tax deductions. The level of profitability of certain of our products is significantly dependent on these characteristics and our ability to continue to generate taxable income, which is taken into consideration when pricing products and is a component of our capital management strategies. Accordingly, changes in tax law, our ability to generate taxable income, or other factors impacting the availability or value of the tax characteristics generated by our products, could impact product pricing and returns or require us to reduce our sales of these products or implement other actions that could be disruptive to our businesses. In addition, the adoption of "principles based" approaches for statutory reserves may lead to significant changes to the way tax reserves are determined and thus reduce future tax deductions.

Table of Contents

Our ability to meet obligations, pay shareholder dividends, and to engage in share repurchases may be adversely affected by limitations imposed on dividends and other distributions from our subsidiaries.

Prudential Financial is the holding company for all our operations, and dividends, returns of capital and interest income from its subsidiaries are the principal source of funds available to Prudential Financial to pay shareholder dividends, to make share repurchases and to meet its other obligations. These sources of funds may be complemented by Prudential Financial s access, if available, to the capital markets and bank facilities. As described under Business Regulation and Note 15 to the Consolidated Financial Statements, our domestic and foreign insurance and various other subsidiary companies, are subject to regulatory limitations on the payment of dividends and on other transfers of funds to Prudential Financial. In addition to these regulatory limitations, the terms of the IHC debt contain restrictions potentially limiting dividends by Prudential Insurance applicable to the Financial Services Businesses in the event the Closed Block Business is in financial distress and under other circumstances. Finally, our management of our subsidiaries to have capitalization consistent with their ratings objectives itself may constrain their payment of dividends. These restrictions on Prudential Financial s subsidiaries may limit or prevent such subsidiaries from making dividend payments to Prudential Financial in an amount sufficient to fund Prudential Financial s obligations, shareholder dividends and share repurchases. From time to time, the NAIC and various state and foreign insurance regulators have considered, and may in the future consider, proposals to further limit dividend payments that an insurance company may make without regulatory approval.

Legal and regulatory actions are inherent in our businesses and could adversely affect our results of operations or financial position or harm our businesses or reputation.

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our businesses, including in businesses that we have divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Legal liability or adverse publicity in respect of these or future legal or regulatory actions could have an adverse affect on us or cause us reputational harm, which in turn could harm our business prospects.

Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed under Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters in the Note 23 to Consolidated Financial Statements. Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. Our reserves for litigation and regulatory matters may prove to be inadequate. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company s litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company s financial position.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of copyright, trademark or license usage rights, or (iii) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

Operational Risks

Our risk management policies and procedures and our minority investments in joint ventures may leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.

Our policies, procedures and controls to monitor and manage risks, including hedging programs that utilize derivative financial instruments, may not be fully effective in achieving their purposes and may leave us exposed to unidentified and unanticipated risks. The Company uses models in its hedging programs and many other aspects of its operations, including but not limited to the estimation of actuarial reserves, the amortization of DAC and VOBA, and the valuation of certain other assets and liabilities. These models rely on assumptions and projections that are inherently uncertain. Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective.

Past or future misconduct by our employees or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor associates business decisions and prevent us from taking excessive or inappropriate risks, there can be no assurance that these controls and procedures are or may be effective. We review our compensation policies and practices as part of our overall risk management program, but it is possible that our compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If our associates take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our results of operations or financial condition.

In our investments in which we hold a minority interest, or that are managed by third parties, we lack management and operational control over operations, which may prevent us from taking or causing to be taken actions to protect or increase the value of those investments. In those jurisdictions where we are constrained by law from owning a majority interest in jointly owned operations, our remedies in the event of a breach by a joint venture partner may be limited (e.g., we may have no ability to exercise a call option).

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, could harm our business.

We depend heavily on our telecommunication, information technology and other operational systems and on the integrity and timeliness of data we use to run our businesses and service our customers. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. Further, we face the risk of operational and technology failures by others, including clearing agents, exchanges and other financial intermediaries and of vendors and parties to which we outsource the provision of services or business operations. If these parties do not perform as anticipated, we may experience operational difficulties, increased costs and other adverse effects on our business. These risks are heightened by our offering of increasingly complex products, such as those that feature automatic asset transfer or re-allocation strategies, and by our employment of complex investment, trading and hedging programs.

Despite our implementation of a variety of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches, resulting in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to customers, or in the misappropriation of our intellectual property or proprietary information.

Table of Contents

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, subject us to regulatory sanctions and other claims, lead to a loss of customers and revenues and otherwise adversely affect our business.

We face risks arising from acquisitions, divestitures and restructurings, including client losses, surrenders and withdrawals, difficulties in integrating and realizing the projected results of acquisitions and contingent liabilities with respect to dispositions.

We face a number of risks arising from acquisition transactions, including the risk that, following the acquisition or reorganization of a business, we could experience client losses, surrenders or withdrawals or other results materially different from those we anticipate, as well as difficulties in integrating and realizing the projected results of acquisitions and restructurings and managing the litigation and regulatory matters to which acquired entities are party. We have retained insurance or reinsurance obligations and other contingent liabilities in connection with our divestiture or winding down of various businesses, and our reserves for these obligations and liabilities may prove to be inadequate. These risks may adversely affect our results of operations or financial condition.

Other Risks

The occurrence of natural or man-made disasters could adversely affect our operations, results of operations and financial condition.

The occurrence of natural disasters, including hurricanes, floods, earthquakes, tsunamis, tornadoes, fires, explosions, pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect our operations, results of operations or financial condition, including in the following respects:

- Catastrophic loss of life due to natural or man-made disasters could cause us to pay benefits at higher levels and/or materially earlier than anticipated and could lead to unexpected changes in persistency rates.

- A natural or man-made disaster could result in disruptions in our operations, losses in our investment portfolio or the failure of our counterparties to perform, or cause significant volatility in global financial markets.

- A terrorist attack affecting financial institutions in the United States or elsewhere could negatively impact the financial services industry in general and our business operations, investment portfolio and profitability in particular.

- Pandemic disease, caused by a virus such as H5N1, the avian flu virus, or H1N1, the swine flu virus, could have a severe adverse effect on Prudential Financial s business. The potential impact of such a pandemic on Prudential Financial s results of operations and financial position is highly speculative, and would depend on numerous factors, including: the effectiveness of vaccines and the rate of contagion; the regions of the world most affected; the effectiveness of treatment for the infected population; the rates of mortality and morbidity among various segments of the insured population; the collectability of reinsurance; the possible macroeconomic effects of a pandemic on the Company s asset portfolio; the effect on lapses and surrenders of existing policies, as well as sales of new policies; and many other variables.

There can be no assurance that our business continuation plans and insurance coverages would be effective in mitigating any negative effects on our operations or profitability in the event of a terrorist attack or other disaster.

Climate change, and its regulation, may affect the prospects of companies and other entities whose securities we hold and other counterparties, including reinsurers, and affect the value of investments, including real estate investments we hold or manage for others. Our current evaluation is that the near term effects of climate change and climate change regulation on the Company are not material, but we cannot predict the long term impacts on us from climate change or its regulation.

Table of Contents

We have substantial international operations and our international operations face political, legal, operational and other risks that could adversely affect those operations or our profitability.

A substantial portion of our revenues and income from continuing operations is derived from our operations outside the U.S., primarily Japan and Korea. These operations are subject to restrictions on transferring funds out of the countries in which they are located. Some of our foreign insurance and investment management operations are, and are likely to continue to be, in emerging markets where this risk, as well as risks of discriminatory regulation, labor issues in connection with workers associations and trade unions, price controls, currency exchange controls, nationalization or expropriation of assets, are heightened. If our business model is not successful in a particular country, we may lose all or most of our investment in building and training our sales force in that country.

Many of our insurance products sold in international markets, including Japan, provide for the buildup of cash values for the policyholder at contractually fixed guaranteed interest rates. Actual returns on the underlying investments may not necessarily support the guaranteed interest rates and there may be times when the spread between the actual investment returns and these guaranteed rates of return to the policyholder is negative and in which this negative spread may not be offset by the mortality, morbidity and expense charges we earn on the products.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could increase the amount of taxes that we pay or impact the sales of our products. Such changes could result in a decrease in sales of our products or in our profits.

Our international operations are regulated in the jurisdictions in which they are located or operate. These regulations may apply heightened scrutiny to non-domestic companies, which can reduce our flexibility as to intercompany transactions, investments and other aspects of business operations and adversely affect our liquidity, profitability, and regulatory capital.

Intense competition, including the impact of government sponsored programs and other actions on us and our competitors, could adversely affect our ability to maintain or increase our market share or profitability.

In each of our businesses we face intense competition from domestic and foreign insurance companies, asset managers and diversified financial institutions, both for the ultimate customers for our products and, in many businesses, for distribution through non-affiliated distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution and distribution arrangements, price, perceived financial strength and credit and financial strength ratings. A decline in our competitive position as to one or more of these factors could adversely affect our profitability and assets under management. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength or credit ratings than we do. The proliferation and growth of non-affiliated distribution channels puts pressure on our captive sales channels to increase their productivity and reduce their costs in order to remain competitive, and we run the risk that the marketplace will make a more significant or rapid shift to non-affiliated or direct distribution alternatives than we anticipate or are able to achieve ourselves, potentially adversely affecting our market share and results of operations. In certain international markets in which we operate, we face competition from government owned entities that benefit from pricing or other competitive advantages. The competitive landscape in which we operate may be further affected by government sponsored programs, as well as by longer term fiscal policies, adopted in the U.S. and outside of the U.S. in response to dislocations in financial markets and the economy. Competitors that receive governmental financing or other assistance or subsidies, including governmental guarantees of their obligations, or that are not subject to the same regulatory constraints, may have or obtain pricing or other competitive advantages. Changes in laws and regulations in response to adverse market and economic conditions may result in us being classified differently than competitors for purposes of capital and other requirements, potentially affecting our ability to compete and the competitive landscape generally.

Table of Contents

Competition for personnel in all of our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Consultants and other sales personnel, and our investment managers. We devote significant efforts to talent management and development and are subject to the risk that executive, management and other personnel will be hired or recruited by competitors. Competition for desirable non-affiliated distribution channels is also intense. The loss of key personnel or non-affiliated distribution channels could have an adverse effect on our business and profitability.

Regulatory requirements could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests.

Various states in which our insurance companies are domiciled, including New Jersey, must approve any direct or indirect change of control of insurance companies organized in those states. The U.S. federal securities laws could also require reapproval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control. In addition, the New Jersey Business Corporation Act prohibits certain business combinations with interested shareholders. These regulatory and other restrictions may delay a potential merger or sale of Prudential Financial, even if the Board of Directors decides that it is in the best interests of shareholders to merge or be sold.

Holders of our Common Stock are subject to risks due to the issuance of our Class B Stock, a second class of common stock.

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business, and our Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. There are a number of risks to holders of our Common Stock by virtue of this dual common stock structure, including:

Even though we allocate all our consolidated assets, liabilities, revenue, expenses and cash flow between the Financial Services Businesses and the Closed Block Business for financial statement purposes, there is no legal separation between the Financial Services Businesses and the Closed Block Business. Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses; holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business; and therefore holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

The financial results of the Closed Block Business, including debt service on the IHC debt, will affect Prudential Financial s consolidated results of operations, financial position and borrowing costs.

The market value of our Common Stock may not reflect solely the performance of the Financial Services Businesses.

We cannot pay cash dividends on our Common Stock for any period if we choose not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount on the Class B Stock for that period. See Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities for the definition of these terms. Any net losses of the Closed Block Business, and any dividends or distributions on, or repurchases of the Class B Stock, would reduce the assets of Prudential Financial legally available for dividends on the Common Stock.

Holders of Common Stock and Class B Stock vote together as a single class of common stock under New Jersey law, except as otherwise required by law and except that the holders of the Class B Stock have class voting or consent rights with respect to specified matters directly affecting the Class B Stock.

Shares of Class B Stock are entitled to a higher proportionate amount upon any liquidation, dissolution or winding-up of Prudential Financial than shares of Common Stock.

We may exchange the Class B Stock for shares of Common Stock at any time, and the Class B Stock is mandatorily exchangeable in the event of a sale of all or substantially all of the Closed Block Business or a change of control of Prudential Financial, as discussed under Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Table of Contents

Our Board of Directors has adopted certain policies regarding inter-business transfers and accounting and tax matters, including the allocation of earnings, with respect to the Financial Services Businesses and Closed Block Business. Although the Board of Directors may change any of these policies, any such decision is subject to the Board of Directors general fiduciary duties, and we have agreed with investors in the Class B Stock and the insurer of the IHC debt that, in most cases, the Board of Directors may not change these policies without their consent.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. EXECUTIVE OFFICERS OF THE REGISTRANT

The names of the executive officers of Prudential Financial and their respective ages and positions, as of February 22, 2013, were as follows:

Name	Age	Title	Other Directorships
John R. Strangfeld, Jr.	59	Chairman, Chief Executive Officer and President	None
Mark B. Grier	60	Vice Chairman	None
Edward P. Baird	64	Executive Vice President and Chief Operating Officer, International Businesses	None
Richard J. Carbone	65	Executive Vice President and Chief Financial Officer	None
Charles F. Lowrey	55	Executive Vice President and Chief Operating Officer, U.S. Businesses	None
Susan L. Blount	55	Senior Vice President and General Counsel	None
Richard F. Lambert	56	Senior Vice President and Chief Actuary	None
Nicholas C. Silitch	51	Senior Vice President and Chief Risk Officer	None
Scott G. Sleyster	53	Senior Vice President and Chief Investment Officer	None
Sharon C. Taylor	58	Senior Vice President, Human Resources	New Jersey Resources
Barbara G. Koster	58	Senior Vice President, Operations and Systems, and Chief Information Officer	None

Biographical information about Prudential Financial executive officers is as follows:

John R. Strangfeld, Jr. was elected Chairman of Prudential Financial in May 2008 and has served as Chief Executive Officer, President and Director since January 2008. He is a member of the Office of the Chairman and served as Vice Chairman of Prudential Financial from August 2002 to December 2007. He was Executive Vice President of Prudential Financial from February 2001 to August 2002. He served as Chief Executive Officer, Prudential Investment Management of Prudential Insurance from October 1998 until April 2002 and Chairman of the Board and CEO of Prudential Securities (renamed Prudential Equity Group, LLC) from December 2000 to April 2008. He has been with Prudential since July 1977, serving in various management positions, including Senior Managing Director, The Private Asset Management Group from 1995 to 1998; and Chairman, PRICOA Capital Group (London) Europe from 1989 to 1995.

Table of Contents

Mark B. Grier was elected Director of Prudential Financial in January 2008 and has served as Vice Chairman since August 2002. He served as a director of Prudential Financial from December 1999 to January 2001, Executive Vice President from December 2000 to August 2002 and as Vice President of Prudential Financial from January 2000 to December 2000. He served as Chief Financial Officer of Prudential Insurance from May 1995 to June 1997. Since May 1995 he has variously served as Executive Vice President, Corporate Governance; Executive Vice President, Financial Management; Vice Chairman, Financial Management; and Vice Chairman, International. Prior to joining Prudential, Mr. Grier was an executive with Chase Manhattan Corporation.

Edward P. Baird was elected Executive Vice President and Chief Operating Officer, International Businesses, of Prudential Financial and Prudential Insurance in January 2008. He served as Senior Vice President of Prudential Insurance from January 2002 to January 2008. Mr. Baird joined Prudential in 1979 and has served in various executive roles, including President of Pruco Life Insurance Company from January 1990 to December 1990; Senior Vice President for Agencies, Individual Life from January 1991 to June 1996; Senior Vice President, Prudential Healthcare from July 1996 to July 1999; Country Manager (Tokyo, Japan), International Investments Group from August 1999 to August 2002; and President of Group Insurance from August 2002 to January 2008.

Richard J. Carbone was elected Executive Vice President of Prudential Financial and Prudential Insurance in January 2008. He has served as Chief Financial Officer of Prudential Financial since December 2000 and of Prudential Insurance since July 1997. He has also served as Senior Vice President of Prudential Financial from November 2001 to January 2008 and Senior Vice President of Prudential Insurance from July 1997 to January 2008. Prior to that, Mr. Carbone was the Global Controller and a Managing Director of Salomon, Inc. from July 1995 to June 1997; and Controller of Bankers Trust New York Corporation and a Managing Director and Controller of Bankers Trust Company from April 1988 to March 1993; and Managing Director and Chief Administrative Officer of the Private Client Group at Bankers Trust Company from March 1993 to June 1995.

Charles F. Lowrey was elected Executive Vice President and Chief Operating Officer, U.S. Businesses, of Prudential Financial and Prudential Insurance in February 2011. He served as Chief Executive Officer and President of Prudential Investment Management, Inc. from January 2008 to February 2011; and as Chief Executive Officer of Prudential Real Estate Investors, our real estate investment management and advisory business from February 2002 to January 2008. He joined the Company in March 2001, after serving as a managing director and head of the Americas for J.P. Morgan s Real Estate and Lodging Investment Banking group, where he began his investment banking career in 1988. He also spent four years as a managing partner of an architecture and development firm he founded in New York City.

Susan L. Blount was elected Senior Vice President and General Counsel of Prudential Financial and Prudential Insurance in May 2005. Ms. Blount has been with Prudential since 1985. She has served in various supervisory positions since 2002, including Vice President and Chief Investment Counsel and Vice President and Enterprise Finance Counsel. She served as Vice President, Secretary and Associate General Counsel from 2000 to 2002 and Vice President and Secretary from 1995 to 2000.

Richard F. Lambert was elected Senior Vice President and Chief Actuary of Prudential Financial and Prudential Insurance in May 2012. Mr. Lambert has been with Prudential since 1978, serving in various positions including Vice President and Actuary in Prudential s domestic individual life insurance business from 1996 to 2004 and Senior Vice President and Chief Actuary of Prudential s International Insurance division from 2004 to 2012.

Nicholas C. Silitch was elected Senior Vice President and Chief Risk Officer of Prudential Financial and Prudential Insurance in May 2012. He joined Prudential in 2010 as Chief Credit Officer and head of investment risk management. Prior to joining Prudential, Mr. Silitch held the position of Chief Risk Officer of the Alternative Investment Services, Broker Dealer Services and Pershing businesses within Bank of New York Mellon.

Scott G. Sleyster was elected Senior Vice President and Chief Investment Officer of Prudential Insurance and Prudential Financial in May 2012 and February 2013, respectively. Mr. Sleyster has been with Prudential since 1987, serving in a variety of positions, including head of Prudential s Full Service Retirement business, president of Prudential s Guaranteed Products business, chief financial officer for Prudential s Employee Benefits Division, and has held roles in Prudential s Treasury, Derivatives and Investment Management units.

Sharon C. Taylor was elected Senior Vice President, Human Resources for Prudential Financial in June 2002. She also serves as Senior Vice President, Human Resources for Prudential Insurance and the Chair of The Prudential Foundation. Ms. Taylor has been with Prudential since 1976, serving in various human resources and general management positions, including Vice President of Human Resources Communities of Practice, from 2000 to 2002; Vice President, Human Resources & Ethics Officer, Individual Financial Services, from 1998 to 2000; Vice President, Staffing and Employee Relations from 1996 to 1998; Management Internal Control Officer from 1994 to 1996; and Vice President, Human Resources and Administration from 1993 to 1994.

Barbara G. Koster was elected Senior Vice President, Operations and Systems, of Prudential Financial in May 2011 and has been a Senior Vice President of Prudential Insurance Company of America since February 2004. Ms. Koster joined Prudential in November 1995 as the Vice President and Chief Information Officer of Individual Life Insurance Systems and was appointed as the Chief Information Officer of Prudential in 2004. Prior to joining Prudential, Ms. Koster held several positions with Chase Manhattan Bank, including that of President of Chase Access Services.

As previously disclosed, Mr. Carbone is retiring as Chief Financial Officer effective March 4, 2013 and will be succeeded by Robert M. Falzon. Mr. Falzon, age 53, has been Senior Vice President and Treasurer of the Company since January 2010. Previously, Mr. Falzon was Managing Director at Prudential Real Estate Investors, the Company s real estate investment management and advisory business (PREI). At PREI, he was head of PREI s Global Merchant Banking Group and CEO of its European business. Before joining PREI in 1998, Mr. Falzon was a Managing Director in the investment banking group at Prudential Securities Incorporated. Previously, Mr. Falzon had worked in the Company s private placement unit.

ITEM 2. PROPERTIES

We own our headquarters building located at 751 Broad Street, Newark, New Jersey, which comprises approximately 0.6 million square feet. Excluding our headquarters building and properties used by the International Insurance division and Asset Management segment, which are discussed below, we own eight and lease 13 other principal properties throughout the U.S., some of which are used for home office functions. In addition, we are currently in the process of developing a new office building located in Newark, New Jersey, which will be used for home office functions. Our domestic operations also lease approximately 180 other locations throughout the U.S.

For our International Insurance segment, which includes our international insurance operations, we own five home offices located in Japan, Korea, Taiwan, Brazil and Argentina, and lease five home offices located in China, Italy, Mexico, India and Poland. We also own approximately 120 and lease approximately 560 other properties, primarily field offices, located throughout these same countries. For our Asset Management segment, which includes our international investment operations, we lease three home offices located in Japan, Taiwan and India. We also lease 15 international principal properties located in Brazil, Mexico, Japan, Hong Kong, Singapore, Korea, China, Germany and the United Kingdom, in addition to approximately 20 other branch and field offices within Europe and Asia.

We believe our properties are adequate and suitable for our business as currently conducted and are adequately maintained. The above properties do not include properties we own for investment-only purposes.

ITEM 3. LEGAL PROCEEDINGS

See Note 23 to the Consolidated Financial Statements under Litigation and Regulatory Matters for a description of material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

Prudential Financial s Common Stock was issued to eligible policyholders in Prudential Insurance s demutualization and sold to investors in Prudential Financial s initial public offering. The Common Stock began trading on the New York Stock Exchange under the symbol PRU on December 13, 2001. The following table presents the high and low closing prices for the Common Stock on the New York Stock Exchange during the periods indicated and the dividends declared per share during such periods:

	High	Low	Dividends
2012:			
Fourth Quarter	$ 59.89	$ 48.74	$ 1.60
Third Quarter	$ 58.63	$ 45.46	
Second Quarter	$ 64.50	$ 44.74	
First Quarter	$ 64.65	$ 51.30	
2011:			
Fourth Quarter	$ 57.32	$ 43.91	$ 1.45
Third Quarter	$ 65.26	$ 43.93	
Second Quarter	$ 64.62	$ 57.77	
First Quarter	$ 67.32	$ 58.32	

On January 31, 2013, there were 1,742,501 registered holders of record for the Common Stock and 463 million shares outstanding.

The Class B Stock was issued to institutional investors (two subsidiaries of American International Group, Inc. and Pacific Life Corp.) in a private placement pursuant to Section 4(2) of the Securities Act of 1933 on the date of demutualization. There is no established public trading market for the Class B Stock. During the fourth quarter of 2012 and 2011, Prudential Financial paid an annual dividend of $9.625 per share of Class B Stock. On January 31, 2013, there were three holders of record for the Class B Stock and 2 million shares outstanding.

Prudential Financial s Board of Directors currently intends to continue to declare and pay dividends on the Common Stock and Class B Stock. Beginning in the first quarter of 2013, Prudential Financial will move to a quarterly Common Stock dividend schedule. Future dividend decisions will be based on, and affected by, a number of factors including the financial performance of the Financial Services Businesses and Closed Block Business; our overall financial condition, results of operations, cash requirements and future prospects; regulatory restrictions on the payment of dividends by Prudential Financial s subsidiaries; and such other factors as the Board of Directors may deem relevant. Dividends payable by Prudential Financial are limited to the amount that would be legally available for payment under New Jersey corporate law. For additional information on dividends and related regulatory restrictions, see Note 15 to the Consolidated Financial Statements.

For additional information about our exchangeable surplus notes see Note 14 to the Consolidated Financial Statements.

See Item 12 for information about our equity compensation plans.

Common Stock and Class B Stock

The Common Stock and the Class B Stock are separate classes of common stock under New Jersey corporate law.

Table of Contents

Holders of Common Stock and Class B Stock will be entitled to dividends if and when declared by Prudential Financial s Board of Directors out of funds legally available to pay those dividends. To the extent dividends are paid on the Class B Stock, shares of Class B Stock are repurchased or the Closed Block Business has net losses, the amount legally available for dividends on the Common Stock will be reduced. In addition, payment of dividends will be subject to the following additional conditions:

Common Stock will be entitled to receive dividends, if and when declared by Prudential Financial s Board of Directors, only out of assets of the Financial Services Businesses legally available for the payment of dividends under the New Jersey Business Corporation Act as if the Financial Services Businesses were a separate New Jersey corporation; and

Class B Stock will be entitled to receive dividends, if and when declared by Prudential Financial s Board of Directors, only out of assets of the Closed Block Business legally available for the payment of dividends under the New Jersey Business Corporation Act, as if the Closed Block Business were a separate New Jersey corporation.

Dividends declared and paid on the Common Stock will depend upon the financial performance of the Financial Services Businesses. Dividends declared and paid on the Class B Stock will depend upon the financial performance of the Closed Block Business and, as the Closed Block matures, the holders of the Class B Stock will receive the surplus of the Closed Block Business no longer required to support the Closed Block for regulatory purposes. Dividends on the Class B Stock will be payable in an aggregate amount per year at least equal to the lesser of (1) a Target Dividend Amount of $19.25 million or (2) the CB Distributable Cash Flow, as defined below, for such year, which is a measure of the net cash flows of the Closed Block Business. Notwithstanding this formula, as with any common stock, we retain the flexibility to suspend dividends on the Class B Stock; however, if CB Distributable Cash Flow exists for any period and Prudential Financial chooses not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount for that period, then cash dividends cannot be paid on the Common Stock with respect to such period. The principal component of CB Distributable Cash Flow will be the amount by which Surplus and Related Assets, determined according to statutory accounting principles, exceed surplus that would be required for the Closed Block Business considered as a separate insurer; provided, however, that CB Distributable Cash Flow counts such excess only to the extent distributable as a dividend by Prudential Insurance under specified, but not all, provisions of New Jersey insurance law. Subject to the discretion of the Board of Directors of Prudential Financial, we currently anticipate paying dividends on the Class B Stock at the Target Dividend Amount for the foreseeable future.

CB Distributable Cash Flow means, for any quarterly or annual period, the sum of (i) the excess of (a) the Surplus and Related Assets over (b) the Required Surplus applicable to the Closed Block Business within Prudential Insurance, to the extent that Prudential Insurance is able to distribute such excess as a dividend to Prudential Holdings, LLC (PHLLC) under New Jersey law without giving effect, directly or indirectly, to the earned surplus requirement of Section 17:27A-4c.(3) of the New Jersey Insurance Holding Company Systems Law, plus (ii) any amount held by PHLLC allocated to the Closed Block Business in excess of remaining debt service payments on the IHC debt. For purposes of the foregoing, Required Surplus means the amount of surplus applicable to the Closed Block Business within Prudential Insurance that would be required to maintain a quotient (expressed as a percentage) of (i) the Total Adjusted Capital applicable to the Closed Block Business within Prudential Insurance (including any applicable dividend reserves) divided by (ii) the Company Action Level RBC applicable to the Closed Block Business within Prudential Insurance, equal to 100%, where Total Adjusted Capital and Company Action Level RBC are as defined in the regulations promulgated under the New Jersey Dynamic Capital and Surplus Act of 1993. These amounts are determined according to statutory accounting principles.

The shares of Common Stock will vote together with the shares of Class B Stock on all matters (one share, one vote) except as otherwise required by law and except that holders of the Class B Stock will have class voting or consent rights with respect to specified matters directly affecting the Class B Stock.

Prudential Financial may, at its option, at any time, exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 120% of the appraised fair market value of the outstanding shares of Class B Stock. Holders of Class B Stock may exchange

Table of Contents

their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised fair market value of the outstanding shares of Class B Stock (1) in the holder s sole discretion, in the year 2016 or at any time thereafter, and (2) at any time in the event of certain federal income tax or regulatory events. If Prudential Financial sells or otherwise disposes of all or substantially all of the Closed Block Business or a change of control of Prudential Financial occurs, Prudential Financial must exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value of 120% of the appraised fair market value of such shares of Class B Stock. For further information on the exchange provisions of the Class B Stock, see Note 15 to the Consolidated Financial Statements, the Amended and Restated Certificate of Incorporation of Prudential Financial included as Exhibit 3.1 to this report, and the Description of Capital Stock contained in the Registration Statement included as Exhibit 2.1 to this report.

Any exchange of Class B Stock into Common Stock could occur at a time when either or both of the Common Stock and Class B Stock may be considered to be overvalued or undervalued.

If shares of Class B Stock are outstanding at the time of a liquidation, dissolution or winding-up of Prudential Financial, each share of Common Stock and Class B Stock will be entitled to a share of net liquidation proceeds in proportion to the respective liquidation units of such class. Each share of Common Stock will have one liquidation unit, and each share of Class B Stock will have 2.83215 liquidation units.

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the three months ended December 31, 2012 of its Common Stock.

Period	Total Number of Shares Purchased(1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program
October 1, 2012 through October 31, 2012	2,040	$ 56.46		
November 1, 2012 through November 30, 2012	5,079	$ 52.37		
December 1, 2012 through December 31, 2012	1,832	$ 51.02		
Total	8,951	$ 53.03		$ 850,000,000

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

(2) In June 2012, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock through June 2013.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2012, 2011 and 2010 and the selected consolidated balance sheet data as of December 31, 2012 and 2011 from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2009 and 2008 and the selected consolidated balance sheet data as of December 31, 2010, 2009 and 2008 from consolidated financial statements not included herein.

Results for the year ended December 31, 2012 include approximately $32 billion of premiums reflecting two recently completed significant pension risk transfer transactions. On November 1, 2012, we issued a non-participating group annuity contract to the General Motors Salaried Employees Pension Trust, and assumed responsibility for providing specified benefits to certain participants. On December 10, 2012, we issued a non-participating group annuity contract to the Verizon Management Pension Plan and assumed responsibility for providing specified benefits to certain participants. The premiums from these transactions were largely offset by a corresponding increase in policyholders benefits, including the change in policy reserves.

Table of Contents

On February 1, 2011, we acquired the Star and Edison Businesses from American International Group, Inc. The results of these companies are reported with the Gibraltar Life operations and are included in the results presented below from the date of acquisition. The Star and Edison companies were merged into Gibraltar Life on January 1, 2012.

On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities. In 2009, Equity in earnings of operating joint ventures, net of taxes includes a pre-tax gain on the sale of $2.247 billion. In addition, General and administrative expenses includes certain one-time costs related to the sale of the joint venture interest of $104 million for pre-tax compensation costs and costs related to increased contributions to the Company s charitable foundation. The total of these items is an after-tax gain of $1.389 billion, or $2.95 per share of Common Stock.

On May 1, 2009, we acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008, and renamed The Prudential Gibraltar Financial Life Insurance Company, Ltd. Results presented below include the results of this company from the date of acquisition.

The 2009 income tax provision includes a benefit of $272 million from a reduction to the liability for unrecognized tax benefits and related interest, primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 and 2003 tax years.

Our Gibraltar Life operations use a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2012, 2011, 2010, 2009 and 2008 includes Gibraltar Life assets and liabilities as of November 30. Consolidated income statement data for 2012, 2011, 2010, 2009 and 2008 includes Gibraltar Life results for the twelve months ended November 30, 2012, 2011, 2010, 2009 and 2008, respectively.

Table of Contents

This selected consolidated financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements included elsewhere herein.

	Year Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 65,354	$ 24,301	$ 18,238	$ 16,497	$ 15,459
Policy charges and fee income	4,489	3,924	3,323	2,832	3,138
Net investment income	13,661	13,124	11,865	11,390	11,824
Asset management fees and other income	2,752	4,850	3,741	4,513	757
Realized investment gains (losses), net	(1,441)	2,831	1,050	(2,897)	(2,457)
Total revenues	84,815	49,030	38,217	32,335	28,721
Benefits and expenses:					
Policyholders benefits	65,131	23,614	18,285	16,346	16,531
Interest credited to policyholders account balances	4,234	4,484	4,209	4,484	2,335
Dividends to policyholders	2,176	2,723	2,189	1,298	2,218
Amortization of deferred policy acquisition costs	1,504	2,695	1,085	1,131	1,102
General and administrative expenses	11,094	10,605	8,309	7,788	8,035
Total benefits and expenses	84,139	44,121	34,077	31,047	30,221
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	676	4,909	4,140	1,288	(1,500)
Income tax expense (benefit)	204	1,488	1,243	(118)	(589)
Income (loss) from continuing operations before equity in earnings of operating joint ventures	472	3,421	2,897	1,406	(911)
Equity in earnings of operating joint ventures, net of taxes	60	182	82	1,523	(447)
Income (loss) from continuing operations	532	3,603	2,979	2,929	(1,358)
Income (loss) from discontinued operations, net of taxes	15	35	33	(19)	146
Net income (loss)	547	3,638	3,012	2,910	(1,212)
Less: Income (loss) attributable to noncontrolling interests	78	72	11	(34)	36
Net Income (loss) attributable to Prudential Financial, Inc.	$ 469	$ 3,566	$ 3,001	$ 2,944	$ (1,248)
Basic earnings per share Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 0.91	$ 7.01	$ 5.31	$ 7.32	$ (3.20)
Income (loss) from discontinued operations, net of taxes	0.04	0.07	0.07	(0.04)	0.34
Net income (loss) attributable to Prudential Financial, Inc.	$ 0.95	$ 7.08	$ 5.38	$ 7.28	$ (2.86)
Diluted earnings per share Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 0.91	$ 6.92	$ 5.25	$ 7.27	$ (3.20)
Income (loss) from discontinued operations, net of taxes	0.03	0.07	0.07	(0.04)	0.34
Net income (loss) attributable to Prudential Financial, Inc.	$ 0.94	$ 6.99	$ 5.32	$ 7.23	$ (2.86)
Dividends declared per share Common Stock	$ 1.60	$ 1.45	$ 1.15	$ 0.70	$ 0.58

Basic and diluted earnings per share Class B Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 11.50	$ 61.00	$ 229.00	$ (164.50)	$ (9.50)
Income (loss) from discontinued operations, net of taxes	(1.00)	0.00	0.50	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 10.50	$ 61.00	$ 229.50	$ (164.50)	$ (9.50)
Dividends declared per share Class B Stock	$ 9.625	$ 9.625	$ 9.625	$ 9.625	$ 9.625
Ratio of earnings to fixed charges(1)	1.10	1.82	1.75	1.67	

Table of Contents

	As of December 31,				
	2012	2011	2010	2009	2008
			(in millions)		
Balance Sheet Data:					
Total investments excluding policy loans	$ 394,007	$ 344,688	$ 273,245	$ 250,406	$ 232,322
Separate account assets	253,254	218,380	207,776	174,074	147,095
Total assets	709,298	620,244	535,744	476,449	442,399
Future policy benefits and policyholders account balances	350,463	305,229	240,489	227,516	221,653
Separate account liabilities	253,254	218,380	207,776	174,074	147,095
Short-term debt	2,484	2,336	1,982	3,122	10,535
Long-term debt	24,729	24,622	23,653	21,037	20,290
Total liabilities	670,007	585,403	505,696	453,312	431,307
Prudential Financial, Inc. equity	38,575	34,253	29,535	22,603	10,741
Noncontrolling interests	716	588	513	534	351
Total equity	$ 39,291	$ 34,841	$ 30,048	$ 23,137	$ 11,092

(1) For purposes of this computation, earnings are defined as income from continuing operations before income taxes excluding undistributed income (loss) from equity method investments, fixed charges and interest capitalized. Also excludes earnings attributable to noncontrolling interests. Fixed charges are the sum of gross interest expense, interest credited to policyholders account balances and an estimated interest component of rent expense. Due to the Company s loss for the year ended December 31, 2008, the ratio coverage was less than 1:1 and is therefore not presented. Additional earnings of $1,133 million would have been required for the year ended December 31, 2008 to achieve a ratio of 1:1.

The historical information presented in the table above has been revised to reflect the impact of retrospective adoption of the amended guidance related to the deferral of acquisition costs as well as the impact of retrospective application of a change in method of an accounting principle for the Company s pension plans. For further information, see Accounting Policies and Pronouncements Adoption of New Accounting Pronouncements and Note 2 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the Forward-Looking Statements included below the Table of Contents, Risk Factors, Selected Financial Data and the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Overview

Prudential Financial has two classes of common stock outstanding. The Common Stock, which is publicly traded (NYSE:PRU), reflects the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and does not trade on any exchange, reflects the performance of the Closed Block Business. The Financial Services Businesses and the Closed Block Business are discussed below.

Financial Services Businesses

Our Financial Services Businesses consist of three operating divisions, which together encompass six segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments.

The International Insurance division consists of our International Insurance segment. Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments, as well as businesses that have been or will be divested.

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt which are reflected in Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

Table of Contents

We seek growth internally and through acquisitions, joint ventures or other forms of business combinations or investments. Our principal acquisition focus is in our current business lines, both domestic and international.

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 12 to the Consolidated Financial Statements and Business Demutualization and Separation of Business for more information on the Closed Block.

Revenues and Expenses

We earn our revenues principally from insurance premiums; mortality, expense, asset management and administrative fees from insurance and investment products; and investment of general account and other funds. We earn premiums primarily from the sale of individual life insurance, group life and disability insurance, and certain annuity contracts. We earn mortality, expense, and asset management fees primarily from the sale and servicing of separate account products including variable life insurance and variable annuities, and from the sale and servicing of other products including universal life insurance. We also earn asset management and administrative fees from the distribution, servicing and management of mutual funds, retirement products and other asset management products and services. Our operating expenses principally consist of insurance benefits provided and reserves established for anticipated future insurance benefits, general business expenses, dividends to policyholders, commissions and other costs of selling and servicing the various products we sell and interest credited on general account liabilities.

Profitability

Our profitability depends principally on our ability to price our insurance and annuity products at a level that enables us to earn a margin over the costs associated with providing benefits and administering those products. Profitability also depends on, among other items, our actuarial and policyholder behavior experience on insurance and annuity products, our ability to attract and retain customer assets, generate and maintain favorable investment results, effectively deploy capital and utilize our tax capacity, and manage expenses.

Historically, the participating products included in the Closed Block have yielded lower returns on capital invested than many of our other businesses. As we have ceased offering domestic participating products, we expect that the proportion of the traditional participating products in our in force business will gradually diminish as these older policies age, and we grow other businesses. However, the relatively lower returns to us on this existing block of business will continue to affect our consolidated results of operations for many years. Our Common Stock reflects the performance of our Financial Services Businesses, but there can be no assurance that the market value of the Common Stock will reflect solely the performance of these businesses.

See Risk Factors for a discussion of risks that have affected and may affect in the future our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company.

Executive Summary

Prudential Financial, a financial services leader with approximately $1.060 trillion of assets under management as of December 31, 2012, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Industry Trends

Our U.S. and international businesses are impacted by financial markets, economic conditions, regulatory oversight, and a variety of trends that affect the industries where we compete.

U.S. Businesses

Financial and Economic Environment. Although economic and financial conditions continue to show signs of improvement, global market conditions and uncertainty continue to be factors in the markets in which we operate. This uncertainty, particularly in the equity markets, has led to, among other things, increased demand for guaranteed retirement income, fixed income and stable value products, and defined benefit risk transfer solutions.

The continued low interest rate environment continues to negatively impact our portfolio income yields, as discussed further below, and continued high unemployment rates and limited growth in salaries also continue to be factors impacting certain business drivers, including contributions to defined contribution plans and the costs of group disability claims.

Regulatory Environment. Financial market dislocations have produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks applicable to our businesses. In addition, state insurance laws regulate all aspects of our U.S. insurance businesses and our insurance products are substantially affected by federal and state tax laws. Insurance regulators have begun to implement significant changes in the way in which industry participants must determine statutory reserves and statutory capital, particularly for products with embedded options and guarantees such as variable annuities and universal life products with secondary guarantees.

Demographics. Income protection, wealth accumulation and the needs of retiring baby boomers continue to shape the insurance industry. Retirement security is one of the most critical issues in the U.S. for individuals and the investment professionals and institutions that support them. The risk and responsibility of retirement savings continues to shift to employees, away from the government and employers. Life insurance ownership among U.S. households has reached its lowest point in fifty years, with consumers citing other financial priorities and cost of insurance as reasons for the lack of coverage.

Competitive Environment. For the annuities business, traditional competitors continue to take actions to either exit the marketplace or de-risk products in response to recent market volatility. New non-traditional competitors are beginning to enter this marketplace. In 2012, we implemented modifications to scale back benefits and increase pricing for certain product features. We believe our current product offerings are competitively positioned and that our differentiated risk management strategies will provide us with an attractive risk and profitability profile. All of our new variable annuity sales, as well as a significant portion of our in force business, where an optional living benefit has been elected, include an automatic rebalancing feature, which is a feature that is valued in the variable annuity market.

Our retirement and asset management businesses compete on price, service and investment performance. The full service retirement markets are mature, with few dominant players. We have seen a trend toward unbundling of the purchase decision related to the recordkeeping and investment offerings, where the variety of available funds and their performance are the key selection criteria of plan sponsors and intermediaries. Additionally, changes in the regulatory environment have driven more transparent fee disclosures, which have heightened pricing pressures and may accelerate the trend toward unbundling of services. Market disruption and rating agency downgrades have caused some of our institutional investment product competitors to withdraw from the market, creating significant growth opportunities for us in certain markets, including the investment-only stable value market. The recovery of the equity, fixed income, and commercial real estate markets has positively impacted asset managers by increasing assets under management and corresponding fee levels. In addition, institutional fixed income managers have generally experienced positive flows as investors have re-allocated assets into fixed income to reduce risk, including the reduction of risk in pension plans. In 2012, we closed two significant pension risk transfer transactions, which potentially changes the landscape for how plan sponsors consider their pension risk alternatives. The longevity risk associated with these transactions complements our mortality risk businesses.

The individual life and group life and disability markets are mature and, due to the large number of competitors, competition is driven mainly by price and service. The economy has exacerbated pressure on pricing, creating a challenge of maintaining pricing discipline. In the individual life market, many of our competitors took pricing actions in 2012 in response to the low interest rate environment, following our own price increases implemented in 2009 and 2010. Our individual life sales in 2012 benefited from a strong competitive position as a result of these competitor actions. Maintaining this competitive positioning is dependent on sources of financing for the reserves associated with this business and timely utilization of the associated tax benefits. For group products, rate guarantees have become the industry norm, with rate guarantee durations trending upward, primarily for group life insurance, as a general industry practice. There is also an increased demand from clients for bundling of products and services to streamline administration and save costs by dealing with fewer carriers. As employers are attempting to control costs and shift benefit decisions and funding to employees, who continue to value benefits offered in the workplace, employee-pay (voluntary) product offerings and services are becoming increasingly important in the group market. For the long-term care business, many companies, including Prudential, have taken actions in response to the continued low interest rate environment including exiting the marketplace, seeking premium rate increases and changing plan designs. In 2012, we announced our decision to cease sales of long-term care products reflecting our desire to focus our efforts on our core group life and disability lines of business.

International Businesses

Financial and Economic Environment. Our international insurance operations, especially in Japan, continue to operate in the low interest rate environment described below. However, the local market has adapted to the low rate environment in Japan. The continued low interest rate environment in the U.S. may impact the attractiveness of U.S. dollar-denominated products in Japan relative to yen-denominated products. We are also subject to financial impacts associated with movements in foreign currency rates, particularly the Japanese yen. Fluctuations in the value of the yen will continue to impact the relative attractiveness of non-yen products marketed in Japan.

Regulatory Environment. In April 2012, Japanese tax law changed to reduce deductibility of premiums on certain insurance products. This resulted in dislocations in the tax sensitive marketplace and elevated sales of these products prior to the effective date of the tax law change and reduced sales thereafter. The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements for certain assets and has changed the manner in which an insurance company s core capital is calculated. These changes were effective for the fiscal year ending March 31, 2012. We anticipate further changes in solvency regulation from jurisdiction to jurisdiction based on regulatory developments in the U.S., the European Union, and recommendations by an international standard setting body for the insurance regulators, as well as regulatory requirements for those companies deemed to be systemically important financial institutions, or SIFIs, in the U.S. or abroad. In addition, local regulators, including in Japan, may apply heightened scrutiny to non-domestic companies. Internationally, regulators are also increasingly adopting measures to provide greater consumer protection and privacy rights.

Demographics. Japan has an aging population as well as a large pool of household assets invested in low yielding deposit and savings vehicles. The aging of Japan s population as well as strains on government pension programs have led to a growing demand for insurance products with a significant savings element to meet savings and retirement needs as the population transitions to retirement. These products have higher premiums with more of a savings component. We are seeing a similar shift to retirement oriented products in Korea and Taiwan, each of which also has an aging population.

Competitive Environment. The life insurance markets in Japan and Korea are mature. We generally compete more on distribution capabilities and service provided to customers than on price. The aging of

Table of Contents

Japan s population creates an increasing need for product innovation, introducing insurance products which allow for savings and income as the population transitions to retirement. In our Japanese bank channel we experienced elevated sales of yen-denominated single premium reduced death benefit whole life products during periods when competitors capped their sales of similar investment-oriented products. The ability to sell through multiple and complementary distribution channels is a competitive advantage. However, competition for sales personnel as well as access to third party distribution channels is intense.

Impact of Low Interest Rate Environment

The low interest rate environment in the U.S. has resulted in our current reinvestment yields being lower than the overall portfolio income yield, primarily for our investments in fixed maturity securities and commercial mortgage loans. With the Federal Reserve Board s intention to keep interest rates low through at least 2014, our portfolio income yields are expected to continue to decline in future periods.

For the domestic Financial Services Businesses general account, we expect annual scheduled payments and pre-payments to be approximately 10% of the fixed maturity security and commercial mortgage loan portfolios through 2014. The domestic Financial Services Businesses general account has approximately $152 billion of such assets (based on net carrying value) as of December 31, 2012. As these assets mature, the current average portfolio income yield for fixed maturities and commercial mortgage loans of approximately 5% is expected to decline due to reinvesting in a lower interest rate environment.

The reinvestment of scheduled payments and pre-payments at rates below the current portfolio yield, including in some cases, at rates below those guaranteed under our insurance contracts, will impact future operating results to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset-liability management strategies described below, in order to maintain current net interest margins. As of December 31, 2012, our domestic Financial Services Businesses have approximately $143 billion of insurance liabilities and policyholder account balances. Of this amount, approximately $41 billion represents contracts with guaranteed minimum crediting rates. The following table sets forth our contracts in the domestic Financial Services Businesses with guaranteed minimum crediting rates, and the related range of the difference between interest rates being credited to contractholders on these balances as of December 31, 2012 and the respective minimum guaranteed rates.

	Account Value (in billions)	% of Total
Contracts at guaranteed minimum crediting rate	$ 21.9	53%
Contracts above guaranteed minimum crediting rate by:		
0% 0.49%	2.8	7
0.5% 1%	2.0	5
greater than 1%	14.3	35
Total contracts with minimum guaranteed crediting rates	$ 41.0	100%

For the contracts above guaranteed minimum crediting rates, although we have the ability to lower crediting rates, our willingness to do so may be limited by competitive pressures.

Our domestic Financial Services Businesses also have approximately $14 billion of insurance liabilities and policyholder account balances representing participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the yield earned on the related assets. The remaining $88 billion of the $143 billion of insurance liabilities and policyholder account balances in our domestic Financial Services Businesses represents long duration products such as group annuities, structured settlements and other insurance products that do not have stated crediting rate guarantees, but have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset-liability management, as discussed further below.

For the domestic Financial Services Businesses general account, assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 1.75% for the period from January 1, 2013 through December 31, 2014, and credit spreads remain unchanged from levels as of December 31, 2012, we estimate that the unfavorable impact to net interest margins included in pre-tax adjusted operating income of reinvesting in such an environment, compared to reinvesting at current average portfolio income yields, would be approximately $51 million in 2013 and $154 million in 2014. This impact is largely concentrated in the Retirement and Individual Annuities segments. This hypothetical scenario only reflects the impact related to the approximately $41 billion of contracts with guaranteed minimum crediting rates shown above, and does not reflect: i) any benefit from potential changes to the crediting rates on the corresponding contractholder liabilities where the Company has the contractual ability to do so, or other potential mitigants such as changes in investment mix that we may implement as funds are reinvested; ii) any impact related to assets that do not directly support our liabilities; iii) any impact from other factors, including but not limited to, new business, contractholder behavior, changes in competitive conditions, and changes in capital markets; and/or iv) any impact from other factors described below.

In order to mitigate the unfavorable impact that the current interest rate environment has on our net interest margins, we employ a proactive asset-liability management program, which includes strategic asset allocation and derivative strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset-liability management program also helps manage duration gaps, currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset-liability management process has permitted us to manage interest-sensitive products successfully through several market cycles.

Our interest rate exposure is also mitigated by our business mix, as we have relatively limited exposure to lines of business in which net interest margin plays a more prominent role in product profitability, such as fixed annuities and universal life, which represents a limited portion of our individual life business in force. In addition, within our Retirement business, a substantial portion of our stable value account values have very low crediting rate floors.

Our Japanese insurance operations have experienced a prolonged low interest rate environment for many years. These operations issue recurring payment and single premium products that are denominated in both Japanese yen and U.S. dollars, as well as fixed annuity products that are denominated in U.S. dollars. For the Japanese yen-denominated products, the exposure to decreased interest rates is limited as our Japanese insurance operations have considered the prolonged low interest rate environment in product pricing, and a rigorous asset-liability management program, which includes our duration management and crediting rate strategies, further limits our exposure. For the U.S. dollar-denominated recurring payment products, our exposure to low interest rates in the U.S. is also limited by our asset-liability management program. For the U.S. dollar-denominated single premium and fixed annuity products, the risk of reduced interest rates is limited, as new fixed annuity contracts are re-priced frequently and pricing for other products is reviewed and updated regularly to reflect current market interest rates.

Current Developments

Effective January 1, 2012, the Company adopted, retrospectively, the amended authoritative guidance issued by the FASB to address which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The Company has applied the retrospective method of adoption. In addition, in December 2012, the Company adopted retrospectively a change in method of applying an accounting principle for the Company s pension plans. The change in accounting method relates to the calculation of market related value of pension plan assets used to determine net periodic pension cost. All historical financial information presented has been revised to reflect these changes. For further information, see Accounting Policies and Pronouncements Adoption of New Accounting Pronouncements and Note 2 to the Consolidated Financial Statements.

On June 1, 2012, we announced the signing of an agreement with General Motors Co., pursuant to which we would assume certain of its pension benefit obligations to U.S. salaried retiree plan participants and beneficiaries that are covered by the agreement. At closing on November 1, 2012, we issued a non-participating group annuity

Table of Contents

contract to the General Motors Salaried Employees Pension Trust, and assumed responsibility for providing specified benefits to certain participants. In addition, on October 17, 2012, we signed an agreement with Verizon Communications Inc., pursuant to which we will assume certain of its pension benefit obligations to U.S. salaried retiree plan participants and beneficiaries that are covered by the agreement. At closing on December 10, 2012, we issued a non-participating group annuity contract to the Verizon Management Pension Plan, and assumed responsibility for providing specified benefits to certain participants. These pension risk transfer transactions significantly expand the size of our existing payout annuity business.

On June 12, 2012, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock during the period from July 1, 2012 through June 30, 2013. As of December 31, 2012, 2.7 million shares of our Common Stock were repurchased under this authorization for a total cost of $150 million. The Company exhausted an earlier $1.5 billion share repurchase authorization established in June 2011 including 8.8 million shares purchased in the first six months of 2012 at a total cost of $500 million.

In July 2012, we announced our decision to cease sales of group long-term care insurance reflecting the challenging economics of the long-term care market including the continued low interest rate environment as well as our desire to focus our resources on our core group life and disability businesses. In March 2012, we also discontinued sales of our individual long-term care products. As a result of our decision to wind down this business, we have reflected the results of the long-term care insurance business, previously reported within the Group Insurance segment, as a divested business for all periods presented.

On September 27, 2012, we announced that Prudential Insurance agreed to acquire The Hartford s individual life insurance business through a reinsurance transaction. This transaction closed on January 2, 2013. The total cash consideration was $615 million consisting primarily of a ceding commission to provide reinsurance for approximately 700,000 life insurance policies with net retained face amount in force of approximately $135 billion.

On October 19, 2012, Prudential Financial received notice that it is under consideration by the Council for a proposed determination that it should be subject to stricter prudential regulatory standards and supervision by the Board of Governors of the Federal Reserve System pursuant to the Dodd-Frank Act (as a Covered Company). The notice of consideration indicates that Prudential Financial is being reviewed in stage 3 of the three-stage process described in the Council s interpretative guidance for Covered Company determinations and does not constitute a notice of a proposed determination. The Company is entitled, under the applicable regulations, to contest such consideration. Nevertheless, the Council may determine to issue to Prudential Financial a written notice of determination that it is a Covered Company, in which event we would be entitled to request a nonpublic evidentiary hearing before the Council. The prudential standards under the Dodd-Frank Act include requirements regarding risk-based capital and leverage, liquidity, stress-testing, overall risk management, resolution plans, early remediation, and credit concentration; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects as appropriate. See Business Regulation and Risk Factors for more information regarding the potential impact of the Dodd-Frank Act on the Company, including as a result of these stricter prudential standards.

Prudential Bank & Trust, FSB has limited its operations to trust services. On October 31, 2012, the Board of Governors of the Federal Reserve System approved Prudential Financial s application to deregister as a savings and loan holding company, effective as of that date.

On November 7, 2012, Prudential Financial declared an annual dividend for 2012 of $1.60 per share of Common Stock, reflecting an increase of approximately 10% from the 2011 Common Stock dividend. On February 12, 2013, Prudential Financial declared a dividend for the first quarter of 2013 of $0.40 per share of Common Stock reflecting our previously announced plan to move to a quarterly Common Stock dividend schedule in 2013.

Table of Contents

Outlook

Management expects that results in 2013 will continue to reflect the quality of our individual businesses and their prospects, as well as our overall business mix and effective capital management. In 2013, we continue to focus on long-term strategic positioning and growth opportunities, including the following:

U.S. Retirement and Investment Management Market. We seek to capitalize on the growing need of baby boomers for products that provide guaranteed income for longer retirement periods. In addition, we continue to focus on our clients increasing needs for retirement income security given volatility in the financial markets. We also seek to provide products that respond to the needs of plan sponsors to manage risk and control their benefit costs.

U.S. Insurance Market. We continue to focus on writing high-quality business and expect to continue to benefit from expansion of our distribution channels and deepening our relationships with third-party distributors. We also seek to capitalize on opportunities for additional voluntary life purchases in the group insurance market, as institutional clients are focused on controlling their benefit costs.

International Markets. We continue to concentrate on deepening our presence in the markets in which we currently operate, such as Japan, and expanding our distribution capabilities, including through the integration of the acquired Star and Edison Businesses. We seek to capitalize on opportunities arising in international markets as changing demographics and public policy have resulted in a growing demand for retirement income products.

Table of Contents

Results of Operations

Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the year ended December 31, 2012 was $428 million compared to $3,420 million for 2011.

We analyze performance of the segments and Corporate and Other operations of the Financial Services Businesses using a measure called adjusted operating income. See Consolidated Results of Operations Segment Measures for a discussion of adjusted operating income and its use as a measure of segment operating performance.

Pre-tax adjusted operating income for the Financial Services Businesses for the year ended December 31, 2012 was $3,949 million compared to $3,836 million for 2011. Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the years ended December 31, 2012, 2011 and 2010 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Adjusted operating income before income taxes for segments of the Financial Services Businesses:			
Individual Annuities	$ 1,039	$ 662	$ 950
Retirement	638	594	565
Asset Management	503	782	506
Total U.S. Retirement Solutions and Investment Management Division	2,180	2,038	2,021
Individual Life	384	482	482
Group Insurance	16	163	174
Total U.S. Individual Life and Group Insurance Division	400	645	656
International Insurance	2,704	2,263	1,887
Total International Insurance Division	2,704	2,263	1,887
Corporate and Other	(1,335)	(1,110)	(936)
Adjusted operating income before income taxes for the Financial Services Businesses	3,949	3,836	3,628
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments(1)	(3,666)	2,503	152
Charges related to realized investment gains (losses), net(2)	857	(1,656)	(179)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	610	223	501
Change in experience-rated contractholder liabilities due to asset value changes(4)	(540)	(123)	(631)
Divested businesses(5)	(597)	101	18
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(6)	(1)	(189)	(95)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	612	4,695	3,394
Income (loss) from continuing operations before income taxes for Closed Block Business	64	214	746
Consolidated income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 676	$ 4,909	$ 4,140

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses.
(2) Revenues exclude related charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. Benefits and expenses exclude related charges that represent the impact of Realized investment gains (losses), net, on the amortization of deferred policy acquisition costs, and other costs.
(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.
(4) Benefits and expenses exclude changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.
(5) See Divested Businesses.

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

Results for 2012 presented above reflect the following:

Individual Annuities. Segment results for 2012 increased in comparison to 2011, reflecting the favorable comparative impact of changes in the estimated profitability of the business, driven by the net impacts of market performance, and annual reviews and updates of economic and actuarial assumptions and other refinements. Excluding these items, results increased in comparison to 2011, reflecting higher asset-based fee income, driven by higher average variable annuity account values, net of an increased level of distribution and amortization costs, partially offset by higher general and administrative expenses, net of capitalization.

Retirement. Segment results for 2012 increased in comparison to 2011. The increase primarily reflects the favorable impact of a legal settlement in 2012, as well as higher asset-based fee income and net investment spread results. These increases were partially offset by costs to write-off an intangible asset related to an acquired business, higher general and administrative expenses, net of capitalization, and an unfavorable comparative reserve impact from case experience.

Asset Management. Segment results declined in 2012 in comparison to 2011 reflecting less favorable results from the segment s strategic investing activities, which reflect charges for the current year on real estate investments, compared to a gain in the prior year on the partial sale of a real estate seed investment. The lower contribution from these activities, as well as higher expenses in the current year and the comparative impact of a gain on the sale of an operating joint venture in 2011 offset the benefit from higher asset management fees.

Individual Life. Segment results declined from 2011 primarily driven by the unfavorable comparative impact from our annual reviews and updates of economic and actuarial assumptions as well as costs incurred in 2012 associated with our acquisition of The Hartford s individual life insurance business.

Group Insurance. Segment results declined in 2012 in comparison to 2011 primarily due to less favorable group life and disability underwriting results and higher expenses.

International Insurance. Segment results for 2012 increased in comparison to 2011 in both our Life Planner and Gibraltar Life and Other operations including a net favorable impact from foreign currency exchange rates. Results from the segment s Life Planner operations primarily reflect business growth driven by sales results and continued strong persistency. Improved results from the segment s Gibraltar Life and Other operations were primarily driven by business growth, additional synergies and lower integration costs associated with our acquisition of the former Star and Edison businesses, and the absence of claims and expenses associated with the 2011 earthquake in Japan. Offsetting these favorable items was a greater benefit in the prior year from partial sales of our indirect investment in China Pacific Group.

Corporate and Other operations. The results for 2012 as compared to 2011 reflect an increased loss primarily due to a higher level of expenses in other corporate activities and greater interest expense, net of investment income, driven primarily from higher levels of capital debt.

Closed Block Business. Income from continuing operations before income taxes decreased $150 million in 2012 compared to 2011, primarily reflecting lower net realized investment gains and net investment income, partially offset by a decline in the policyholder dividend obligation expense.

Table of Contents

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions and require management s most difficult, subjective, or complex judgments.

Deferred Policy Acquisition and Other Costs

We capitalize costs that are directly related to the acquisition or renewal of insurance and annuity contracts. These costs primarily include commissions, as well as costs of policy issuance and underwriting and certain other expenses that are directly related to successfully negotiated contracts. See Note 2 to our Consolidated Financial Statements for a discussion of the new authoritative guidance adopted effective January 1, 2012, regarding which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. We have also deferred costs associated with sales inducements related to our variable and fixed annuity contracts primarily within our Individual Annuities segment. Sales inducements are amounts that are credited to the policyholder s account balance as an inducement to purchase the contract. For additional information about sales inducements, see Note 11 to the Consolidated Financial Statements. We amortize these deferred policy acquisition costs, or DAC, and deferred sales inducements, or DSI, over the expected lives of the contracts, based on our estimates of the level and timing of gross margins, gross profits, or gross premiums, depending on the type of contract. As described in more detail below, in calculating DAC and DSI amortization, we are required to make assumptions about investment returns, mortality, persistency, and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. We also periodically evaluate the recoverability of our DAC and DSI. For certain contracts, this evaluation is performed as part of our premium deficiency testing, as discussed further below in Policyholder Liabilities. As of December 31, 2012, DAC and DSI in our Financial Services Businesses were $13.7 billion and $1.4 billion, respectively, and DAC in our Closed Block Business was $412 million.

Amortization methodologies

DAC associated with the traditional participating products of our Closed Block Business is amortized over the expected lives of those contracts in proportion to estimated gross margins. Gross margins consider premiums, investment returns, benefit claims, costs for policy administration, changes in reserves, and dividends to policyholders. We evaluate our estimates of future gross margins and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of actual gross margins and changes in our expected future gross margins. DAC adjustments generally have not created significant volatility in our results of operations since many of the factors that affect gross margins are also included in the determination of our dividends to these policyholders and, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in Policyholders dividends, for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, changes in gross margins and DAC amortization would result in a net impact to the Closed Block Business results of operations. As of December 31, 2012, the excess of actual cumulative earnings over the expected cumulative earnings was $885 million.

DAC associated with the non-participating whole life and term life policies of our Individual Life segment and the whole life, term life, endowment and health policies of our International Insurance segment is amortized in proportion to gross premiums.

Table of Contents

DAC and DSI associated with the variable and universal life policies of our Individual Life and International Insurance segments and the variable and fixed annuity contracts of our Individual Annuities and International Insurance segments are amortized over the expected life of these policies in proportion to total gross profits. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the costs related to our guaranteed minimum death and guaranteed minimum income benefits. Total gross profits include both actual experience and estimates of gross profits for future periods. We regularly evaluate and adjust the related DAC and DSI balances with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in our assumptions regarding estimated future gross profits on our DAC and DSI amortization rates. Adjustments to the DAC and DSI balances include the impact to our estimate of total gross profits of the annual review of assumptions, our quarterly adjustments for current period experience, and our quarterly adjustments for market performance. Each of these adjustments is further discussed below in Annual assumptions review and quarterly adjustments.

We include the impact of the embedded derivatives associated with certain of the optional living benefit features of our variable annuity contracts and related hedging activities in actual gross profits used as the basis for calculating current period amortization. We include only certain of these impacts in our best estimate of gross profits used to determine DAC and DSI amortization rates. Beginning in 2012, we include the difference between the change in the fair value of hedge positions and the change in the value of an internally-defined hedge target in our best estimate of total gross profits used for determining amortization rates each quarter, without regard to the permanence of the changes. In 2011 and the second half of 2010, we included these impacts only to the extent this net amount was determined by management to be other-than-temporary. Prior to changing our hedging strategy to incorporate the internally-defined hedge target in the second half of 2010, we considered the change in the fair value of hedge positions and the change in the embedded derivative liability as defined under U.S. GAAP, excluding the impact of the market-perceived risk of our own non-performance, each quarter in determining amortization rates. These changes over time reflect our regular review of the estimated profitability of our business, changes in our hedging strategy and other factors. For additional information on our internally-defined hedge target, as well as the current period impact of resetting amortization rates for this activity, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Variable Annuity Living Benefits Hedging Program Results.

Annual assumptions review and quarterly adjustments

Annually, during the third quarter, we perform a comprehensive review of the assumptions used in estimating gross profits for future periods. Although we review these assumptions on an ongoing basis throughout the year, we generally only update these assumptions and adjust the DAC and DSI balances during the third quarter, unless a material change that we feel is indicative of a long term trend is observed in an interim period. Over the last several years, the Company s most significant assumption updates resulting in a change to expected future gross profits and the amortization of DAC and DSI have been related to lapse experience and other contractholder behavior assumptions, mortality, and revisions to expected future rates of returns on investments. We expect these assumptions to be the ones most likely to cause potential significant changes in the future. The impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

The quarterly adjustments for current period experience referred to above reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change. In these cases, we recognize a cumulative adjustment to all previous periods amortization, also referred to as an experience true-up adjustment.

The quarterly adjustments for market performance referred to above reflect the impact of changes to our estimate of total gross profits to reflect actual fund performance. A significant portion of gross profits for our variable annuity contracts and, to a lesser degree, our variable life policies are dependent upon the total rate of return on assets held in separate account investment options. This rate of return influences the fees we earn, costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features

72

related to our variable annuity contracts, as well as other sources of profit. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the future fees we expect to earn and decrease the future costs we expect to incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts. The opposite occurs when returns are lower than our expectations. The changes in future expected gross profits are used to recognize a cumulative adjustment to all prior periods amortization.

The near-term future rate of return assumptions used in evaluating DAC and DSI for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider the actual historical economic returns over a period of time and initially adjust future projected returns over the next four years (the near-term) so that the assets are projected to grow at the long-term expected rate of return for the entire period. If the near-term projected future rate of return is greater than our near-term maximum future rate of return, we use our maximum future rate of return.

The weighted average rate of return assumptions for these businesses consider many factors specific to each business, including asset durations, asset allocations and other factors. We update the near term rates of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach, which assumes a convergence to the long-term expected rates of return. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods gross profits. The new required rate of amortization is also applied prospectively to future gross profits in calculating amortization in future periods.

As of December 31, 2012, our variable annuities business utilizes distinct rates of return for equity and fixed income investments. Assumptions for this business reflect an 8.0% long-term equity expected rate of return and a near-term mean reversion equity rate of return of 9.1%. As of December 31, 2012, all contract groups within our variable annuities business utilized these rates, as the near-term mean reversion equity rate of return was less than our 13% maximum. Fixed income expected rates of return include a risk-free return plus a credit spread and consider the duration and credit profile of the respective bond funds. Fixed income returns reflect a grading from current rates up to long term rates over a ten year period. The weighted average fixed income expected rate of return after the ten year grading period is 5.4%.

As of December 31, 2012, our variable life insurance business utilizes blended rates of return, which are based on a long-term expected distribution of funds between equity and fixed income funds. Assumptions for this business reflect a long-term blended expected rate of return of 6.5%, which includes an 8.1% long-term equity expected rate of return and a 4.5% fixed income expected rate of return. The 4.5% fixed income expected rate of return is a levelized rate, which blends current rates and long-term expected returns. Assumptions also reflect a near-term mean reversion blended rate of return of 5.9%. As of December 31, 2012, all contract groups within our variable life insurance business utilize these rates, as the near-term equity rate of return was less than our 13% maximum.

Sensitivity

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions represent our expected claims experience over the life of these policies and are developed based on Company experience or standard industry tables. Unless a material change in mortality experience that we feel is indicative of a long term trend is observed in an interim period, we generally update our mortality assumptions annually in the third quarter. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment.

The DAC balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2012 was $1.7 billion. The following table provides a demonstration of the sensitivity of that DAC balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. While the information below is for

Table of Contents

illustrative purposes only and does not reflect our expectations regarding future mortality assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our mortality assumptions on the DAC balance, with no changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of DAC, and does not reflect changes in reserves, such as the unearned revenue reserve, which would partially offset the adjustments to the DAC balance reflected below. The impact of the unearned revenue reserve is discussed in more detail below in Policyholder Liabilities.

	December 31, 2012 Increase/(Reduction) in DAC (in millions)
Decrease in future mortality by 1%	$ 38
Increase in future mortality by 1%	$ (38)

For a discussion of DAC adjustments related to our Individual Life segment for the years ended December 31, 2012, 2011 and 2010, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

For variable annuity contracts, DAC and DSI are more sensitive to changes in our future rate of return assumptions due primarily to the significant portion of our gross profits that is dependent upon the total rate of return on assets held in separate account investment options, and the shorter average life of the contracts. The DAC and DSI balances associated with our domestic variable annuity contracts were $3.8 billion and $1.4 billion, respectively, as of December 31, 2012. The following table provides a demonstration of the sensitivity of each of these balances relative to our future rate of return assumptions by quantifying the adjustments to each balance that would be required assuming both an increase and decrease in our future rate of return by 100 basis points. The sensitivity includes an increase and decrease of 100 basis points to both the near-term future rate of return assumptions used over the next four years, and the long-term expected rate of return used thereafter. While the information below is for illustrative purposes only and does not reflect our expectations regarding future rate of return assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our future rate of return on the DAC and DSI balances and not changes in any other assumptions such as persistency, mortality, or expenses included in our evaluation of DAC and DSI. Further, this information does not reflect changes in reserves, such as the reserves for the guaranteed minimum death and optional living benefit features of our variable annuity products, or the impact that changes in such reserves may have on the DAC and DSI balances.

	December 31, 2012	
	Increase/ (Reduction) in DAC	Increase/ (Reduction) in DSI
	(in millions)	
Decrease in future rate of return by 100 basis points	$ (189)	$ (80)
Increase in future rate of return by 100 basis points	$ 153	$ 66

For a discussion of DAC and DSI adjustments related to our Individual Annuities segment for the years ended December 31, 2012, 2011 and 2010, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Value of Business Acquired

In addition to DAC and DSI, we also recognize an asset for value of business acquired, or VOBA. VOBA includes an explicit adjustment to reflect the cost of capital attributable to the acquired insurance contracts, and represents an adjustment to the stated value of inforce insurance contract liabilities to present them at fair value, determined as of the acquisition date. As of December 31, 2012, VOBA was $3,248 million, and included $2,865 million related to the acquisition from AIG of the Star and Edison Businesses on February 1, 2011. See Note 3 to the Consolidated Financial Statements for additional information on the acquisition from AIG of the Star and Edison Businesses. The remaining $383 million relates to previously-acquired traditional life, deferred annuity, defined contribution and defined benefit businesses. VOBA is amortized over the expected life of the acquired contracts. For additional information about VOBA including details on items included in our estimates of future cash flows for the various acquired businesses and its bases for amortization, see Note 2 and Note 8 to the Consolidated Financial Statements. VOBA is also subject to recoverability testing at the end of each reporting period to ensure that the balance does not exceed the present value of anticipated gross profits.

Goodwill

As of December 31, 2012, our goodwill balance of $873 million is reflected in the following four reporting units: $444 million related to our Retirement Full Service business, $238 million related to our Asset Management business, $171 million related to our Gibraltar Life and Other operations and $20 million related to our International Insurance Life Planner business.

We test goodwill for impairment on an annual basis, as of December 31 of each year, or more frequently if events or circumstances indicate the potential for impairment is more likely than not. The goodwill impairment analysis is performed at the reporting unit level which is equal to or one level below our operating segments. This analysis includes a qualitative assessment, for which reporting units may elect to bypass in accordance with accounting guidance, and a quantitative analysis consisting of two steps. For additional information on goodwill and the process for testing goodwill for impairment, see Note 2 and Note 9 to the Consolidated Financial Statements.

The International Insurance s Life Planner business and the Asset Management segment elected to bypass the qualitative assessment and complete their impairment analysis using an earnings multiple approach. The earnings multiple approach indicates the value of a business based on comparison to publicly-traded comparable companies in similar lines of business. Each comparable company is analyzed based on various factors, including, but not limited to, financial risk, size, geographic diversification, profitability, adequate financial data, and an actively traded stock price. A multiple of price to earnings is developed for the comparable companies using independent analysts consensus estimates for each company s 2013 forecasted earnings. The multiples are then aggregated and a mean and median multiple is calculated for the group. The lower of the mean or median multiple is then applied to the 2013 forecasted earnings of the reporting unit to develop a value. A control premium is then added to determine a total estimated fair value for the reporting unit.

The Retirement Full Service business and Gibraltar Life and Other operations also elected to bypass the qualitative assessment and complete their impairment analysis using a discounted cash flow approach. The discounted cash flow approach calculates the value of a business by applying a discount rate reflecting the market expected weighted average rate of return to the projected future cash flows of the reporting unit. These projected future cash flows were based on our internal forecasts, an expected growth rate and a terminal value. The weighted average rate of return, or WARR, represents the required rate of return on total capitalization. It is comprised of a required rate of return on equity of a company and the current tax-affected cost of debt, which are then weighted by the relative percentages of equity and debt assumed in the capital structure. To estimate the return on equity, we applied the Capital Asset Pricing Model, or CAPM. The CAPM is a generally accepted method for estimating an equity investor s return requirement, and hence a company s cost of equity capital. CAPM is determined by beginning with the long-term risk-free rate of return then applying adjustments that consider the equity risk premium required for large company common stock investments as well as company specific adjustments to address volatility, small company premiums and other risks particular to a specific company. The WARR calculation is applied to a group of companies considered peers of the reporting unit to develop a weighted average rate of return for the peer group which is then used to estimate the market expected weighted average rate of return for the reporting unit. This process resulted in a discount rate of 12% which was then applied to the expected future cash flows of the Retirement Full Service business and Gibraltar Life and Other operations to estimate its fair value.

After completion of Step 1 of the quantitative tests, it was determined that fair values exceeded the carrying amounts for each of the four reporting units and it was concluded there was no impairment as of December 31, 2012. The Asset Management, International Insurance s Life Planner, Gibraltar Life and Other operations and Retirement Full Service businesses had estimated fair values that exceeded their carrying amounts by 460%, 100%, 52%, and 11%, respectively.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. The Retirement Full Service business quantitative test is sensitive to a number of key assumptions. For example, a decline in its forecasted cash flows of 10%, an increase in the discount rate above 13.1%, or an increase in the equity attributed to support this business (representing the carrying value) of 11.1% could result in failing Step 1 of the quantitative test and therefore require a Step 2 assessment. Regarding all reporting units tested, further market declines or other events impacting the fair value of these businesses, including discount rates, interest rates and growth rate assumptions or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

As of December 31, 2012, the Company experienced a market capitalization that was below its consolidated book value. An analysis was performed in order to confirm the reasonableness of the reporting unit fair values calculated in the goodwill impairment tests discussed above. The Company considered the fact that certain reporting units that do not contain goodwill have lower estimated fair values due to the nature of the risks in their businesses and also considered the negative impact of our Corporate & Other operations on the overall fair value of the Company. The Company also considered the amount of control premium necessary to estimate a fair value equal to book value. When comparing this control premium to actual control premiums experienced in recent insurance company acquisitions, as well as the impact of the lower market environment which can increase industry control premiums, the Company concluded that the calculated control premium reflected an amount which we believe is within a range of reasonableness. Based on these factors, the Company concluded that the reporting unit fair values calculated in the goodwill impairment test were reasonable.

Valuation of Investments, Including Derivatives, and the Recognition of Other-than-Temporary Impairments

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets, and derivative financial instruments. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities or commodities. Derivative financial instruments we generally use include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter market. We are also party to financial instruments that contain derivative instruments that are embedded in the financial instruments. Management believes the following accounting policies related to investments, including derivatives, are most dependent on the application of estimates and assumptions. Each of these policies is discussed further within other relevant disclosures related to the investments and derivatives, as referenced below.

- Valuation of investments, including derivatives
- Recognition of other-than-temporary impairments
- Determination of the valuation allowance for losses on commercial mortgage and other loans

We present our investments classified as available-for-sale, including fixed maturity and equity securities, our investments classified as trading, such as our trading account assets supporting insurance liabilities, our derivatives, and our embedded derivatives at fair value in the statements of financial position. For additional information regarding the key estimates and assumptions surrounding the determination of fair value of fixed maturity and equity securities, as well as derivative instruments, embedded derivatives and other investments, see Note 20 to the Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities.

For our investments classified as available-for-sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), or AOCI, a separate component of equity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. In addition, investments classified as available-for-sale, as well as those classified as held-to-maturity, are subject to impairment reviews to identify when a decline in value is other-than-temporary. For a discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording other-than-temporary impairments of fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements, Realized Investment Gains and Losses Other-than-Temporary Impairments Fixed Maturity Securities and Realized Investment Gains and Losses Other-than-Temporary Impairments Equity Securities.

Commercial mortgage and other loans are carried primarily at unpaid principal balances, net of unamortized deferred loan origination fees and expenses and unamortized premiums or discounts and a valuation allowance for losses. For a discussion of our policies regarding the valuation allowance for commercial mortgage and other loans see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Policyholder Liabilities

Future Policy Benefit Reserves, other than Unpaid Claims and Claim Adjustment Expenses

We establish reserves for future policy benefits to, or on behalf of, policyholders in the same period in which the policy is issued, using methodologies prescribed by U.S. GAAP. In applying these methodologies, we are required to make certain reserve assumptions. For most contracts, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation. After these reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If reserves determined based on these best estimate assumptions are greater than the net liabilities (i.e., reserves net of any DAC asset), the existing net liabilities are adjusted by first reducing the DAC asset by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the DAC balance, we then increase the reserve by the excess, again through a charge to current period earnings. We typically update our actuarial assumptions, such as mortality, morbidity, retirement and policyholder behavior assumptions, annually in the third quarter of each year, unless a material change is observed in an interim period that we feel is indicative of a long term trend. Generally, we do not expect trends to change significantly in the short-term and, to the extent these trends may change, we expect such changes to be gradual over the long-term. In a sustained low interest rate environment, there is an increased likelihood that the reserves determined based on best estimate assumptions may be greater than the net liabilities. The following paragraphs provide additional details about our reserves for our Closed Block Business and Financial Services Businesses.

The future policy benefit reserves for the traditional participating life insurance products of our Closed Block Business, which as of December 31, 2012, represented 24% of our total future policy benefit reserves are determined using the net level premium method. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both the expected future benefit payments and the expected future premiums. The mortality assumptions are based on data from the standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the contractually guaranteed interest rates used to calculate the cash surrender value of the policies. Gains or losses in our results of operations resulting from deviations in actual experience compared to the experience assumed in establishing our reserves for this business are recognized in the determination of our annual dividends to these policyholders. These gains or losses generally have not created significant volatility in our results of operations since, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in Policyholders dividends, for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, these gains or losses could result in greater volatility in the Closed Block Business results of operations.

The future policy benefit reserves for our International Insurance segment and Individual Life segment, which as of December 31, 2012, represented 47% of our total future policy benefit reserves combined, relate primarily to non-participating whole life and term life products and endowment contracts, and are determined as the present value of expected future benefits to, or on behalf of, policyholders plus the present value of future maintenance expenses less the present value of future net premiums. The expected future benefits and expenses are determined using assumptions about mortality, lapse, and maintenance expense. These assumptions are determined by product group. Mortality assumptions are generally based on the Company s historical experience or standard industry tables, as applicable; our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation; and our interest rate assumptions are based on current and expected net investment returns.

The reserves for future policy benefits of our Retirement segment, which as of December 31, 2012 represented 23% of our total future policy benefit reserves, primarily relate to our non-participating life contingent group annuity and structured settlement products. These reserves are generally determined as the present value of expected future benefits and expenses based on assumptions about mortality, retirement, maintenance expense, and interest rates. These assumptions are determined by product group. Our mortality and retirement assumptions are based on Company or industry experience; our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation; and our interest rate assumptions are based on current and expected net investment returns.

The reserves for future policy benefits of our Corporate & Other operations, which as of December 31, 2012 represented 2% of our total future policy benefit reserves, primarily relate to our long-term care products. These reserves are generally determined as the present value of expected future benefits and expenses less future premiums, based on assumptions about interest rates, morbidity, mortality, lapses, premium rate increases, and maintenance expenses. Our morbidity and mortality assumptions are based on industry experience, and may include certain adjustments for Company experience. Our lapse assumptions are based upon Company experience, our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation, and our interest rate assumptions are based on current and expected net investment returns. Our premium rate increase assumptions are based on our projected experience, which considers state regulatory standards for inforce rate increases, as well as our historical experience with filing for such increases.

The remaining 4% of the reserves for future policy benefits as of December 31, 2012 primarily represent reserves for the guaranteed minimum death benefit (GMDB) and optional living benefit features of the variable annuity products in our Individual Annuities segment, and group life and disability benefits in our Group Insurance segment. The optional living benefits are primarily accounted for as embedded derivatives, with fair values 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. For additional information regarding the valuation of these optional living benefit features, see Note 20 to the Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

In establishing reserves for GMDBs and guaranteed minimum income benefits (GMIB s) related to variable annuity contracts, we must make estimates and assumptions about the timing of annuitization, contract lapses and contractholder mortality, as well as interest rates and equity market returns. Assumptions relating to contractholder behavior, such as the timing of annuitization and contract lapses, are based on our experience by contract group, and vary by product type and year of issuance. We adjust base lapse rate assumptions at the contract level based on a comparison of the actuarially-calculated value and the current policyholder account value, as well as other factors, such as the applicability of any surrender charges. This dynamic lapse rate adjustment reduces the base lapse rate when the guaranteed amount is greater than the account value, as in-the-money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. Mortality assumptions are generally based on standard industry tables, which we adjust based on our historical experience, and also incorporate a mortality improvement assumption. These mortality assumptions vary by contract group. Over the last several years, the Company s most significant assumption updates that have resulted in changes to our reserves for GMDBs and GMIBs have been related to lapse experience and other contractholder behavior assumptions and revisions to expected future rates of returns on investments. The Company expects these assumptions to be the ones most likely to cause significant changes in the future. Changes in these assumptions can be offsetting and can also impact our DAC and other balances as discussed above. For additional information on the calculation of these reserves, see Note 11 to the Consolidated Financial Statements.

The future rate of return assumptions used in establishing reserves for GMDBs and GMIBs related to variable annuity contracts are derived using a reversion to the mean approach, a common industry practice. For additional information regarding our future expected rate of return assumptions and our reversion to the mean approach see, Deferred Policy Acquisition and Other Costs. The following table provides a demonstration of the sensitivity of the reserves for GMDBs and GMIBs related to variable annuity contracts relative to our future rate of return assumptions by quantifying the adjustments to these reserves that would be required assuming both a 100 basis point increase and decrease in our future rate of return. The sensitivity includes an increase and decrease of 100 basis points to both the near-term future rate of return assumptions used over the next four years,

78

Table of Contents

and the long-term expected rate of return used thereafter. While the information below is for illustrative purposes only and does not reflect our expectations regarding future rate of return assumptions, it is a near-term, reasonably likely change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our future rate of return on operating results due to the change in the reserve balance and not changes in any other assumptions such as persistency, mortality, or expenses included in our evaluation of the reserves, or any changes on DAC or other balances, discussed above in Deferred Policy Acquisition and Other Costs.

	December 31, 2012 Increase/(Reduction) in GMDB/GMIB Reserves (in millions)
Decrease in future rate of return by 100 basis points	$ 154
Increase in future rate of return by 100 basis points	$ (126)

For a discussion of adjustments to the reserves for GMDBs and GMIBs related to our Individual Annuities segment for the years ended December 31, 2012, 2011 and 2010, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Unpaid claims and claim adjustment expenses

Our liability for unpaid claims and claim adjustment expenses of $2.9 billion as of December 31, 2012 is reported as a component of Future policy benefits and relates primarily to the group long-term disability products of our Group Insurance segment. This liability represents our estimate of future disability claim payments and expenses as well as estimates of claims that we believe have been incurred, but have not yet been reported as of the balance sheet date. We do not establish loss liabilities until a loss has occurred. As prescribed by U.S. GAAP, our liability is determined as the present value of expected future claim payments and expenses. Expected future claim payments are estimated using assumed mortality and claim termination factors and an assumed interest rate. The mortality and claim termination factors are based on standard industry tables and the Company s historical experience. Our interest rate assumptions are based on factors such as market conditions and expected investment returns. Of these assumptions, our claim termination assumptions have historically had the most significant effect on our level of liability. We compare our claim termination assumptions to actual terminations annually. These studies review actual claim termination experience over a number of years with more weight placed on the actual experience in the more recent years. If actual experience results in a different assumption, we adjust our liability for unpaid claims and claims adjustment expenses accordingly with a charge or credit to current period earnings. In recent years, we have experienced an increase in the volume of new long-term disability claims, as well as unfavorable claim termination experience, driven by the economic downturn. During 2012, our claim termination experience has shown improvement, but has been outpaced by a continued increase in new claims. We are investing in our claims management process which, over time, should drive improvements in this area.

Unearned revenue reserves for universal life and investment contracts

Our unearned revenue reserve, or URR, reported as a component of Policyholders account balances, is $1.2 billion as of December 31, 2012. This reserve primarily relates to variable and universal life products within our Individual Life segment and represents policy charges for services to be provided in future periods. The charges are deferred as unearned revenue and amortized over the expected life of the contract in proportion to the product s estimated gross profits, similar to DAC as discussed above.

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions represent our expected claims experience over the life of these policies and are developed based on Company experience or standard industry tables. Unless a material change in mortality experience that we feel is indicative of a long term trend is observed in an interim period, we generally update our mortality assumptions annually in the third quarter. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment.

Table of Contents

The URR balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2012 was $0.8 billion. The following table provides a demonstration of the sensitivity of that URR balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. While the information below is for illustrative purposes only and does not reflect our expectations regarding future mortality assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change on the URR balance and does not reflect the offsetting impact of such a change on the DAC balance as discussed above in Deferred Policy Acquisition and Other Costs. This information considers only the direct effect of changes in our mortality assumptions on the URR balance and not changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of URR.

	December 31, 2012 Increase/(Reduction) in URR (in millions)
Decrease in future mortality by 1%	$ 32
Increase in future mortality by 1%	$ (32)

For a discussion of URR adjustments related to our Individual Life segment for the years ended December 31, 2012, 2011, and 2010, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

Pension and Other Postretirement Benefits

We sponsor pension and other postretirement benefit plans covering employees who meet specific eligibility requirements. Our net periodic costs for these plans consider an assumed discount (interest) rate, an expected rate of return on plan assets and expected increases in compensation levels and trends in health care costs. Of these assumptions, our expected rate of return assumptions, and to a lesser extent our discount rate assumptions, have historically had the most significant effect on our net period costs associated with these plans.

We determine our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. See Note 18 to our Consolidated Financial Statements for our actual asset allocations by asset category and the asset allocation ranges prescribed by our investment policy guidelines for both our pension and other postretirement benefit plans. Our assumed long-term rate of return for 2012 was 6.75% for our domestic pension plans and 7.00% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2011, the beginning of the measurement year, if we had assumed an expected rate of return for both our pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the measurement year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

	For the year ended December 31, 2012	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in expected rate of return by 100 basis points	$ (117)	$ (13)
Decrease in expected rate of return by 100 basis points	$ 117	$ 13

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to our Consolidated Financial Statements for information regarding the December 31, 2011 methodology we employed to determine our discount rate for 2012. Our assumed discount rate for 2012 was 4.85% for our domestic pension plans and 4.60% for our other postretirement benefit plans. Given the amount of pension and postretirement obligations as of December 31, 2011, the beginning of the measurement year, if we had assumed a discount rate for both our

Table of Contents

pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed discount rate without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate.

	For the year ended December 31, 2012	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in discount rate by 100 basis points	$ 8	$ (4)
Decrease in discount rate by 100 basis points	$ 18	$ 1

Given the application of the authoritative guidance for accounting for pensions, and the deferral and amortization of actuarial gains and losses arising from changes in our assumed discount rate, the change in net periodic pension cost arising from an increase in the assumed discount rate by 100 basis points would not be expected to equal the change in net periodic pension cost arising from a decrease in the assumed discount rate by 100 basis points.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2012, see Results of Operations for Financial Services Businesses by Segment Corporate and Other.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2013, we will decrease the discount rate to 4.05% from 4.85% in 2012. The expected rate of return on plan assets will decrease to 6.25% in 2013 from 6.75% in 2012, and the assumed rate of increase in compensation will remain unchanged at 4.5%.

In addition to the effect of changes in our assumptions, the net periodic cost or benefit from our pension and other postretirement benefit plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

At December 31, 2012, the sensitivity of our pension and postretirement obligations to a 100 basis point change in discount rate was as follows:

	December 31, 2012	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
Increase in discount rate by 100 basis points	(12)%	(9)%
Decrease in discount rate by 100 basis points	14%	10%

Taxes on Income

Our effective tax rate is based on income, non-taxable and non-deductible items, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes. The Company provides for U.S. income taxes on unremitted foreign earnings of its operations in Japan and certain operations in India, Germany and Taiwan. In addition, beginning in 2012, the Company provides for U.S. income taxes on a portion of the current year foreign earnings for its insurance operations in Korea.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally

Table of Contents

represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expenditures for which we have already taken a deduction in our tax return but have not yet been recognized in our financial statements.

The application of U.S. GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary to reduce our deferred tax assets to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance we consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that we would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

An increase or decrease in our effective tax rate by one percent of income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures, would have resulted in an increase or decrease in our consolidated income from continuing operations before equity in earnings of operating joint ventures in 2012 of $7 million.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process, the first step being recognition. We determine whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. We measure the tax position as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company s liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing authorities. See Note 19 to the Consolidated Financial Statements for a discussion of the impact in 2010, 2011 and 2012 of changes to our total unrecognized tax benefits. We do not anticipate any significant changes within the next 12 months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

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

Reserves for Contingencies

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. Under U.S. GAAP, reserves for contingencies are required to be established when the future event is probable and its impact can be reasonably estimated, such as in connection with an unresolved legal matter. The initial reserve reflects management s best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately, when the matter is brought to closure.

Table of Contents

Adoption of New Accounting Pronouncements

Effective January 1, 2012, the Company adopted, retrospectively, new authoritative guidance to address which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. All prior period financial information has been revised to reflect the retrospective adoption of the amended guidance. The impact of the retrospective adoption of this guidance on previously reported December 31, 2011 balances was a reduction in deferred policy acquisition costs by $4.1 billion for the Financial Services Businesses and by $0.2 billion for the Closed Block Business, an increase in policy reserves for certain limited pay contracts by $0.2 billion for the Financial Services Businesses, and a reduction in total equity by $2.8 billion for the Financial Services Businesses and $0.2 billion for the Closed Block Business. The impact of the retrospective adoption of this guidance on previously reported income from continuing operations before income taxes for the years ended December 31, 2011 and 2010 was a decrease of $262 million and $282 million for the Financial Services Businesses, respectively, and an increase of $17 million and $21 million for the Closed Block Business, respectively. The lower level of costs now qualifying for deferral will be only partially offset by a lower level of amortization of deferred policy acquisition costs, and, as such, will 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 mainly 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.

See Note 2 to the Consolidated Financial Statements for a complete discussion of newly issued accounting pronouncements, including further discussion of the new authoritative guidance addressing which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral, as well as our retrospective adoption of a change in method of applying an accounting principle for the Company s pension plans.

Table of Contents

Consolidated Results of Operations

The following table summarizes net income for the Financial Services Businesses and the Closed Block Business for the periods presented.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Financial Services Businesses:			
Revenues	$ 78,558	$ 42,015	$ 31,131
Benefits and expenses	77,946	37,320	27,737
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	612	4,695	3,394
Income tax expense	183	1,420	991
Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	429	3,275	2,403
Equity in earnings of operating joint ventures, net of taxes	60	182	82
Income from continuing operations for Financial Services Businesses	489	3,457	2,485
Income from discontinued operations, net of taxes	17	35	32
Net income Financial Services Businesses	506	3,492	2,517
Less: Income attributable to noncontrolling interests	78	72	11
Net income of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 428	$ 3,420	$ 2,506
Closed Block Business:			
Revenues	$ 6,257	$ 7,015	$ 7,086
Benefits and expenses	6,193	6,801	6,340
Income from continuing operations before income taxes for Closed Block Business	64	214	746
Income tax expense	21	68	252
Income from continuing operations for Closed Block Business	43	146	494
Income (loss) from discontinued operations, net of taxes	(2)	0	1
Net income Closed Block Business	41	146	495
Less: Income attributable to noncontrolling interests	0	0	0
Net income of Closed Block Business attributable to Prudential Financial, Inc.	$ 41	$ 146	$ 495
Consolidated:			
Net income attributable to Prudential Financial, Inc.	$ 469	$ 3,566	$ 3,001

Results of Operations Financial Services Businesses

2012 to 2011 Annual Comparison. Income from continuing operations for the Financial Services Businesses decreased $2,968 million from 2011 to 2012. Results for 2012 compared to 2011 reflect the following:

Lower pre-tax earnings of $2,377 million resulting from the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations which are economically matched and offset in AOCI, driven by the weakening of the Japanese yen (see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies for additional information);

A $666 million unfavorable variance, before income taxes, reflecting the net impact from market value changes on our embedded derivatives and related hedge positions associated with certain variable annuities, primarily driven by the impact of non-performance risk, partially offset by the impact of amortization of deferred policy acquisition and other costs as well as market value changes associated with certain derivatives under our capital hedge program (see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Variable Annuity Living Benefits Hedging Program Results for additional information);

Table of Contents

A $639 million unfavorable variance, before taxes, from adjustments to deferred policy acquisition and other costs and the reserves for our long-term care products, reflecting updates to the estimated profitability of the business, driven by changes to our long-term interest rate and morbidity assumptions, partially offset by expected future premium increases;

Lower net pre-tax realized gains of $432 million, excluding the impact of the hedging program associated with certain variable annuities as described above, primarily reflecting lower gains from changes in the market value of derivatives used to manage duration in our general account investment portfolios as a result of changes in interest rates. Also contributing to the decline is the comparative impact of changes in the market value of currency derivatives used to hedge portfolio assets due to foreign currency exchange rate movements;

The comparative impact of a $237 million pre-tax benefit in 2011 compared to a pre-tax benefit of $60 million in 2012 reflecting partial sales of our indirect interest in China Pacific Insurance Group; and

The absence of a $96 million pre-tax gain in 2011 reflecting the sale of our investment in Afore XXI, an operating joint venture in our Asset Management segment.

Partially offsetting these decreases in income from continuing operations were the following items:

A decrease in income tax expense of $1,237 million primarily reflecting the decrease in pre-tax income from continuing operations;

A $303 million favorable variance, before taxes, from adjustments to deferred policy acquisition and other costs and the reserves for guaranteed minimum death and income benefit features of our variable annuity products, reflecting updates to the estimated profitability of the business, primarily resulting from market performance and the impact of an annual review and update of assumptions; and

The absence of a $93 million pre-tax charge recorded in 2011 for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders.

In addition to the items above, premiums increased $41,154 million, primarily driven by higher premiums in our Retirement segment reflecting two significant pension risk transfer transactions in 2012 as well as higher premiums in our International Insurance segment reflecting sales growth in Gibraltar s bank distribution channel. These increases are largely offset by corresponding increases in policyholder benefits, including changes in reserves.

2011 to 2010 Annual Comparison. Income from continuing operations for the Financial Services Businesses increased $972 million from 2010 to 2011. Results for 2011 compared to 2010 reflect the following:

Higher net pre-tax gains of $717 million associated with our general account portfolio, excluding the impact of the hedging program associated with certain variable annuities as discussed below, primarily reflecting higher gains from changes in the market value of derivatives used to manage the investment portfolio duration resulting from declining interest rates in 2011, and higher gains from changes in the market value of currency derivatives used to hedge portfolio assets due to foreign currency exchange rate movements;

Higher net pre-tax earnings of $686 million reflecting the impact of foreign currency exchange rate movements on certain non-yen denominated assets and insurance liabilities within our Japanese insurance operations which are economically matched and the offset is included in Other Comprehensive Income (loss) , driven by the strengthening of the yen during 2011;

A $237 million pre-tax benefit in 2011 compared to a $66 million pre-tax benefit in 2010 on sales of portions of our indirect interest in China Pacific Insurance (Group) Co., Ltd;

A $96 million pre-tax gain on the sale of our investment in Afore XXI, an operating joint venture in our Asset Management segment; and

A net increase in premiums and policy charges and fee income, net of an increase in policyholders benefits, including changes in reserves, reflecting business growth, as well as the impact of favorable currency fluctuations.

Table of Contents

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

A $588 million unfavorable variance, before taxes, reflecting the net impact from market value changes on our embedded derivatives, including the impact of non-performance risk, and related hedge positions associated with certain variable annuities, the impact on amortization of deferred policy acquisition and other costs and the impact of temporarily hedging to an amount that differs from our hedge target definition;

A $558 million unfavorable variance, before taxes, from adjustments to deferred policy acquisition and other costs and the reserves for guaranteed minimum death and income benefit features of our variable annuity products, reflecting updates to the estimated profitability of the business primarily resulting from market performance and the impact of an annual review and update of assumptions;

Higher income tax expense of $429 million primarily reflecting the increase in pre-tax income from continuing operations; and

A $93 million pre-tax expense for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders.

Results of Operations Closed Block Business

For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business below.

Segment Measures

Adjusted Operating Income. In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our segments operating performance using adjusted operating income. Results of the Closed Block Business for all periods are evaluated and presented only in accordance with U.S. GAAP. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of the Financial Services Businesses.

See Note 22 to the Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

Annualized New Business Premiums. In managing certain of our businesses, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales.

Annualized new business premiums include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts.

Assets Under Management. In managing our Asset Management business, we analyze assets under management, which do not correspond to U.S. GAAP assets, because the principal source of revenues is fees based on assets under management. Assets under management represents the fair market value or account value of assets which we manage directly in proprietary products, such as mutual funds and variable annuities, in separate accounts, wrap-fee products and the general account, and assets invested in investment options included in our products that are managed by third party sub-managers (i.e., the non-proprietary investment options in the Company s products).

Table of Contents

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

Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

The Individual Annuities segment offers variable and fixed annuities that provide our customers with tax deferred asset accumulation together with a base death benefit and a suite of optional guaranteed death and living benefits. As the investment return on the contractholder funds is generally attributed directly to the contractholder, we derive our revenue mainly from fee income generated on variable annuity account values, investment income earned on fixed annuity account values, and certain other management fees. Our expenses primarily consist of interest credited and other benefits to contractholders, amortization of deferred acquisition costs (DAC) and other costs, expenses related to the selling and servicing of the various products we offer, costs of hedging our risk associated with these products and the eventual payment of benefit guarantees and other general business expenses. These drivers of our business results are generally included in adjusted operating income, with exceptions related to certain guarantees, as discussed below.

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

Account Values

Account values are a significant driver of our operating results. Since most policy fees are determined by the level of separate account assets, fee income varies according to the level of account values. Additionally, our fee income drives other items such as our pattern of amortization of DAC and other costs. Account values are primarily driven by net flows from new business sales, surrenders and withdrawals, and benefit payments, as well as the impact of market changes on account values. The following tables set forth account value information for the periods indicated.

	Year ended December 31,		
	2012	2011	2010

	(in millions)		
Total Individual Annuities(1):			
Beginning total account value	$ 113,535	$ 106,185	$ 83,971
Sales	20,032	20,293	21,754
Surrenders and withdrawals	(6,806)	(7,232)	(7,138)
Net sales	13,226	13,061	14,616
Benefit payments	(1,450)	(1,368)	(1,248)
Net flows	11,776	11,693	13,368
Change in market value, interest credited and other activity	12,710	(2,104)	10,514
Policy charges	(2,679)	(2,239)	(1,668)
Ending total account value(2)	$ 135,342	$ 113,535	$ 106,185

Table of Contents

(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were $131.6 billion, $109.7 billion and $102.3 billion as of December 31, 2012, 2011 and 2010, respectively. Fixed annuity account values were $3.7 billion, $3.8 billion and $3.8 billion as of December 31, 2012, 2011 and 2010, respectively.

(2) As of December 31, 2012, includes variable annuity account values of $75 billion, or 57%, invested in equity portfolios, $41 billion, or 31%, invested in bond portfolios, $8 billion, or 6%, invested in market value adjusted or fixed-rate accounts and $8 billion, or 6%, invested in money market funds.

As shown above, our account values are significantly impacted by net sales and the impact of market performance on customers accounts. Our sales levels were relatively flat between 2012 and 2011, reflecting the dynamic competitive landscape we have experienced over this period. During 2012, we suspended additional customer deposits for variable annuities with certain optional living benefit riders that were no longer being offered and implemented variable annuity product modifications for new sales to scale back benefits, increase pricing and close a share class in the third quarter. Certain of our competitors have taken actions to implement product modifications that scale back benefits and to exit, or limit their presence in, the variable annuity marketplace. Our results in future periods may continue to be impacted by the dynamic competitive landscape. The decrease in surrenders and withdrawals for 2012 compared to 2011 primarily reflects the continued retention of contracts with guarantees that are in-the-money and the attractiveness of our inforce contracts relative to substitute products currently available in the marketplace.

The decrease in gross sales for 2011 compared to 2010 reflects the impacts of modifications we implemented in the first quarter of 2011 to scale back benefits and increase pricing, and increased competition as certain of our competitors became more aggressive in product design and pricing. Surrenders and withdrawals were relatively flat despite the increase in account values, reflecting a decline in withdrawal rates.

Operating Results

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Operating results:			
Revenues	$ 3,983	$ 3,638	$ 3,195
Benefits and expenses	2,944	2,976	2,245
Adjusted operating income	1,039	662	950
Realized investment gains (losses), net, and related adjustments	(1,882)	3,136	120
Related charges	942	(1,686)	(146)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 99	$ 2,112	$ 924

Adjusted Operating Income

2012 to 2011 Annual Comparison. Adjusted operating income increased $377 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $74 million. This increase was driven by higher asset-based fees due to growth in average variable annuity account values, as discussed in Account Values above, net of an increased level of distribution and amortization costs. The increase was partially offset by higher general and administrative expenses, net of capitalization, reflecting increased costs to support business initiatives, including a $9 million charge related to an impairment of capitalized software costs in the fourth quarter of 2012, based on a review of recoverability.

The impacts of changes in the estimated profitability of the business include adjustments to the reserves for the GMDB and GMIB features of our variable annuity products and to the amortization of DAC and other costs. These adjustments reflect the impacts of market performance, current period experience and the annual review and update of assumptions performed in the third quarter. These changes resulted in an $81 million net benefit in 2012, and a $222 million net charge in 2011. The $81 million net benefit in 2012 was primarily driven by the impact of positive market performance on customer accounts relative to our assumptions, partially offset by the

Table of Contents

impact of annual assumption updates. These annual assumption updates were driven by updates to our economic assumptions, primarily reflecting reductions to our long-term interest and equity rate of return assumptions, as well as updates to actuarial assumptions and other refinements. The $222 million net charge in 2011 was primarily driven by the impact of negative market performance on customer accounts relative to our assumptions.

In addition to these current period impacts, the changes to the estimated profitability of our business also drive changes in our future accrual rates for GMDB and GMIB reserves and amortization rates for DAC and other costs, which will impact results in future periods. Additionally, we include certain results of our living benefits hedging program in our best estimate of gross profits used to determine amortization rates, which also drives changes in the amortization of DAC and other costs in future periods. The results above exclude the fourth quarter impacts of resetting the amortization rates for this item, as both the results of our living benefits hedging program and related amortization of DAC and other costs are excluded from adjusted operating income in the quarter realized, as described below in Variable Annuity Living Benefits Hedging Program Results. However, adjusted operating income in future periods includes the impact on amortization of applying the new rates to actual gross profits. The inclusion of net unfavorable results from our living benefits hedging program in our best estimate of gross profits drove increases in amortization rates and, therefore, an increase in amortization expense included in adjusted operating income in 2012. While a decrease in our best estimate of total gross profits accelerates amortization and decreases income in a given period, it does not affect our cash flow or liquidity position.

For weighted average rate of return assumptions and additional information on our policy for amortizing DAC and other costs, and for estimating future expected claims costs associated with the GMDB and GMIB features of our variable annuity products as of December 31, 2012, see Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

2011 to 2010 Annual Comparison. Adjusted operating income decreased $288 million. Excluding the impacts of changes in the estimated profitability of the business on the reserves for the GMDB and GMIB features of our variable annuity products and on the amortization of DAC and other costs, discussed below, adjusted operating income increased $270 million. This increase was driven by higher asset-based fees due to growth in average variable annuity account values, net of an increased level of distribution costs. The increase was partially offset by higher general and administrative expenses, net of capitalization, reflecting increased costs to support business growth and higher financing expenses, and the impact of a $25 million benefit in 2010 from refinements based on a review and settlement of reinsurance contracts related to acquired business.

The impacts of changes in the estimated profitability of the business resulted in a $222 million net charge in 2011, and a $336 million net benefit in 2010. The $222 million net charge in 2011 was primarily driven by the impact of negative market performance on customer accounts relative to our assumptions. The $336 million net benefit in 2010 reflected the impacts of annual assumption updates, driven by reductions to lapse rate assumptions and more favorable assumptions relating to fee income, as well as the impacts of favorable market performance on customer accounts relative to our assumptions, and favorable claims, lapse and fee experience.

Revenues, Benefits and Expenses

2012 to 2011 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $345 million, primarily driven by a $384 million increase in policy charges and fee income, and asset management fees and other income, due to growth in average variable annuity account values.

Benefits and expenses, as shown in the table above under Operating Results, decreased $32 million. Absent the $303 million net decrease related to the impacts of certain changes in our estimated profitability of the business, discussed above, benefits and expenses increased $271 million. General and administrative expenses, net of capitalization, increased $211 million, driven by higher asset-based trail commissions, reflecting account value growth, as well as higher costs to support business initiatives. The amortization of DAC increased $92 million driven by higher gross profits primarily related to the increase in fee income discussed above, and higher amortization rates driven primarily by the inclusion of unfavorable results from our living benefits hedging program in our best estimate of total gross profits used to determine amortization rates.

2011 to 2010 Annual Comparison. Revenues increased $443 million. Policy charges and fees and asset management fees and other income increased $576 million driven by growth in average variable annuity account

Table of Contents

values. Partially offsetting the increase in revenues was a decrease in net investment income of $88 million, reflecting lower average annuity account values in the general account primarily resulting from net transfers from the general account to the separate accounts, driven by an automatic rebalancing element in some of our optional living benefit features.

Benefits and expenses increased $731 million. Absent the $558 million net increase related to the impacts of certain changes in our estimated profitability of the business, discussed above, benefits and expenses increased $173 million. General and administrative expenses, net of capitalization, increased $195 million, driven by higher distribution and asset management costs, reflecting business and account value growth. The amortization of DAC increased $78 million driven by higher gross profits primarily related to the increase in fee income discussed above. Interest expense also increased $46 million driven by higher borrowings to fund costs related to new business sales. Interest credited to policyholders account balances decreased $107 million primarily due to lower average annuity account values in the general account partially offset by higher amortization of deferred sales inducements reflecting the impact of higher gross profits.

Variable Annuity Risks and Risk Mitigants

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions, such as equity market returns, interest rates and market volatility, and actuarial assumptions, such as contractholder longevity/mortality, the timing of annuitization and withdrawals, and contract lapses. For our actuarial assumptions, we have retained the risk that actual experience will differ from the assumptions used in the original pricing of these products. For our capital markets assumptions, we hedge or limit our exposure to the risk created by capital markets fluctuations through a combination of product design elements, such as an automatic rebalancing element, also referred to as an asset transfer feature, and inclusion of certain optional living benefits in our living benefits hedging program.

Our automatic rebalancing element occurs at the contractholder level, and transfers assets between certain variable investments selected by the annuity contractholder and, depending on the benefit feature, the fixed-rate account in the general account or a bond portfolio within the separate accounts. The automatic rebalancing element associated with currently-sold products uses a designated bond portfolio within the separate accounts. The transfers are based on the static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder s total account value. The objective of the automatic rebalancing element is to mitigate our exposure to equity market risk and market volatility. Other product design elements we utilize include, among others, asset allocation restrictions and minimum issuance age requirements. In addition, certain fees are based on a benefit guarantee amount rather than the account value, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

We use our living benefits hedging program to manage the risk associated with certain of our optional living benefit guarantees. This program represents a balance among three objectives: 1) provide severe scenario protection, 2) minimize net income volatility associated with an internally-defined hedge target, and 3) maintain capital efficiency. Through our hedge program, we purchase derivatives that seek to replicate the net change in our hedge target, discussed further below. In addition to mitigating capital markets risk and income statement volatility, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path, recognizing that, under the terms of the contracts, we do not expect to begin substantial payment of such claims until many years in the future. For additional information regarding this program see Variable Annuities Living Benefits Hedging Program Results below.

For our optional living benefits features, claims will primarily be paid in the form of lifetime contractholder withdrawal payments. These payments commence only after the cumulative withdrawals have first exhausted the policy account value. Due to the age of the block, no such claims payments have occurred to date, nor are they expected to occur within the next five years. The timing and amount of actual future claims depend on actual returns on contractholder account value and actual policyholder behavior relative to our assumptions.

The majority of our variable annuity contracts with optional living benefit features, and all new contracts sold with these features, include an automatic rebalancing element and are also included in our living benefits hedging program. The guaranteed benefit features of certain legacy products that were sold prior to our implementation of the automatic rebalancing element product feature are included in our living benefits hedge program. Certain legacy guaranteed minimum accumulation benefit (GMAB) products include the automatic rebalancing element, but are not included in the hedging program. Our contracts with the GMIB feature have neither risk mitigant, as we have retained the associated risk.

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

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

	December 31, 2012		December 31, 2011		December 31, 2010	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
			(in millions)			
Optional living benefit/GMDB features(1):						
Both risk mitigants	$ 89,167	68%	$ 66,853	61%	$ 52,615	51%
Hedging program only	11,744	9%	11,615	11%	13,203	13%
Automatic rebalancing only	2,787	2%	3,488	3%	4,722	5%
Neither risk mitigant	3,556	3%	3,685	3%	4,532	4%
Total optional living benefit/GMDB features	$ 107,254		$ 85,641		$ 75,072	
GMDB features only(2):						
Neither risk mitigant	24,354	18%	24,102	22%	27,276	27%
Total variable annuity account value	$ 131,608		$ 109,743		$ 102,348	

(1) All contracts with optional living benefit guarantees also contain GMDB features, covering the same insured life.
(2) Reflects contracts that only include a GMDB feature and do not have an automatic rebalancing element.

The increase in account values that include both risk mitigants as of December 31, 2012 compared to prior periods primarily reflects sales of our latest product offerings which, include an automatic rebalancing element and are also included in our living benefits hedging program.

Variable Annuity Living Benefits Hedging Program Results

Under U.S. GAAP, the liability for certain optional living benefit features is accounted for as an embedded derivative and recorded at fair value, based on assumptions a market participant would use in pricing these features. The fair value is calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the applicable living benefit features using option pricing techniques. See Note 20 to the Consolidated Financial Statements for additional information regarding the methodology and assumptions used in calculating the fair value under U.S. GAAP.

As noted within Variable Annuity Risks and Risk Mitigants above, we maintain a hedge program to manage the risk associated with these guarantees. Prior to the third quarter of 2010, our hedging strategy sought to generally match certain estimated capital markets sensitivities of the embedded derivative liability as defined by U.S. GAAP, excluding the impact of the market s perception of our own non-performance risk (NPR). Since then, our program has utilized an internally-defined hedge target that is grounded in a U.S. GAAP/capital markets valuation framework, with three notable modifications.

1. The impact of NPR is excluded to maximize protection against the entire projected claim irrespective of the possibility of our own default.

Table of Contents

2. A credit spread is added to the risk-free rate of return assumption used under U.S. GAAP to estimate future growth of bond investments in the customer separate account funds in order to better replicate the projected returns within those funds.

3. The equity volatility assumption is adjusted to remove certain risk margins required under U.S. GAAP valuation which are used in the projection of customer account values, as we believe the impact of these margins is highly sensitive to short-term market conditions and does not reflect the long-term nature of these guarantees.

Due to these modifications, we expect differences each period between the change in the value of the embedded derivative as defined by U.S. GAAP and the change in the value of the hedge positions used to replicate the hedge target, thus potentially increasing volatility in U.S. GAAP earnings. The following table provides a reconciliation between the fair value of the embedded derivative as defined by U.S. GAAP and the value of our hedge target as of the periods indicated.

	As of December 31, 2012	2011
	(in billions)	
Embedded derivative liability as defined by U.S. GAAP	$ 3.3	$ 2.8
Less: NPR Adjustment	(4.8)	(5.5)
Embedded derivative liability as defined by U.S. GAAP, excluding NPR	8.1	8.3
Less: Portion of embedded derivative liability, excluding NPR, excluded from hedge target liability	2.3	1.2
Hedge target liability	$ 5.8	$ 7.1

We seek to replicate the changes in our hedge target by entering into a range of exchange-traded and over the counter equity and interest rate derivatives to hedge certain capital market risks present in our hedge target. The instruments include, but are not limited to, interest rate swaps, swaptions, floors and caps as well as equity options, total return swaps and equity futures. The following table sets forth the market and notional values of these instruments as of December 31, 2012.

	As of December 31, 2012				As of December 31, 2011			
	Equity		Interest Rate		Equity		Interest Rate	
Instrument	Notional	Market Value	Notional	Market Value	Notional	Market Value	Notional	Market Value
	(in billions)							
Futures	$ 6.5	$ (0.2)	$ 0.0	$ 0.0	$ 2.1	$ 0.0	$ 0.0	$ 0.0
Total return swaps	5.5	(0.1)	54.1	3.0	6.7	(0.1)	31.5	4.0
Options	10.7	0.5	25.3	0.8	4.3	0.3	15.1	1.1
Total	$ 22.7	$ 0.2	$ 79.4	$ 3.7	$ 13.1	$ 0.2	$ 46.6	$ 5.1

Due to cash flow timing differences between our hedging instruments and the corresponding hedge target, as well as other factors, including updates to actuarial valuation assumptions, the amount of hedge assets compared to our hedge target measured as of any specific point in time may be different and is not expected to be fully offsetting.

In addition to the hedge assets held as part of the hedging program, we have cash, other invested assets and affiliated receivables available to cover the future claims payable under these guarantees and other liabilities. For additional information on the liquidity needs associated with our hedging program, see Liquidity and Capital Resources Liquidity associated with other activities Hedging activities associated with living benefit guarantees.

Table of Contents

While we actively manage our hedge positions, changes in the fair value of these positions may not completely offset changes in the fair value of the hedge target. Additionally, updates to actuarial valuation assumptions, which typically occur annually in the third quarter, are generally not hedged and may result in differences between the hedge positions and the hedge target. The primary sources of the differences between the changes in the fair value of the hedge positions and the hedge target, other than actuarial valuation assumption updates, fall into one of three categories:

Fund Performance In order to project future account value growth, we must make certain assumptions about how each underlying fund will perform. We map customer funds to indices that we believe are comparable, are readily tradeable and have active derivative markets. The difference between the modeled fund performance and actual fund performance results in basis differences that can be either positive or negative.

Liability Basis We experience differences between the actual changes in the hedge target and the expected changes we have modeled and attempt to replicate with the hedge program.

Rebalancing Costs and Volatility There are costs associated with rebalancing hedge positions for basis differences between the hedge positions and the hedge target. Our hedge program is also subject to the impact of realized market volatility in excess of, or lower than, our long-term volatility assumptions.

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

	Year ended December 31,		
	2012	2011 (1)	2010
		(in millions)	
Hedge Program Results:			
Change in fair value of hedge positions	$ (2,737)	$ 3,873	$ (224)
Change in value of hedge target, excluding assumption updates(2)	3,480	(5,170)	364
Net hedging impact, excluding assumption updates(2)	$ 743	$ (1,297)	$ 140
Impact of assumption updates on hedge target	(912)	(17)	(902)
Net hedging impact(2)	$ (169)	$ (1,314)	$ (762)
Reconciliation of Hedge Program Results to U.S. GAAP Results:			
Net hedging impact(2) (from above)	$ (169)	$ (1,314)	$ (762)
Change in portions of U.S. GAAP liability, before NPR, excluded from hedge target(3)	(1,020)	(457)	387
Change in the NPR adjustment	(754)	4,786	412
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions reported in Individual Annuities(2)	(1,943)	3,015	37
Related benefit (charge) to amortization of DAC and other costs	981	(1,591)	(4)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs reported in Individual Annuities(2)	$ (962)	$ 1,424	$ 33

(1) Positive amount represents income; negative amount represents a loss.
(2) Excludes $101 million, $(1,662) million and $306 million in 2012, 2011 and 2010, respectively, representing the impact of managing interest rate risk by holding capital against a portion of the interest rate exposure associated with these contracts. Because this decision is based on the capital considerations of the Company as a whole, the impact is reported in Corporate & Other operations. See Corporate & Other.
(3) Represents the impact attributable to the difference between the value of the hedge target and the value of the embedded derivative as defined by U.S. GAAP, before adjusting for NPR, as discussed above.

Results for 2012 generally reflected improved capital markets performance, as well as lower levels of volatility. The $743 million net benefit related to the net hedging impact, excluding assumption updates, primarily reflected positive fund performance. The $912 million net charge related to the impact of assumption

Table of Contents

updates was driven by updates to our policyholder behavior assumptions, primarily related to lapse and mortality rates, as well as policyholder utilization assumptions. The $754 million net charge from the change in the NPR adjustment was primarily driven by a tightening of our NPR credit spreads. We also included these items in gross profits used to calculate the amortization of DAC, which resulted in a net benefit of $981 million, including a $388 million net benefit from the current period impact of incorporating the net hedging impact into our best estimate of gross profits used to set amortization rates.

Results for 2011 reflected significant capital markets volatility in the second half of the year. The $1,297 million net charge related to the net hedging impact, excluding assumption updates, primarily reflected liability basis differences and rebalancing costs and volatility. The $4,786 million benefit due to the change in the NPR adjustment was driven by increases in the base embedded derivative liability before NPR primarily due to significant declines in risk-free interest rates and the impact of account value performance, as well as the widening of our NPR credit spreads. We also included these items in gross profits used to calculate the amortization of DAC, which resulted in a net charge of $1,591 million, including a $130 million net charge from the current period impact of incorporating the cumulative net hedging impact into our best estimate of gross profits used to set amortization rates.

Results for 2010 primarily reflected a $902 million net charge related to the impact of assumption updates, reflecting reductions in the expected lapse rate assumption based on actual experience. This net charge was partially offset by a $412 million benefit due to the change in the NPR adjustment, reflecting increases in the base embedded derivative liability before NPR primarily due to lower interest rates.

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

Retirement

Operating Results

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Operating results:			
Revenues	$ 36,595	$ 4,871	$ 5,183
Benefits and expenses	35,957	4,277	4,618
Adjusted operating income	638	594	565
Realized investment gains (losses), net, and related adjustments	(171)	269	262
Related charges	(1)	(9)	(16)
Investment gains on trading account assets supporting insurance liabilities, net	406	383	468
Change in experience-rated contractholder liabilities due to asset value changes	(336)	(283)	(598)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 536	$ 954	$ 681

Adjusted Operating Income

2012 to 2011 Annual Comparison. Adjusted operating income increased $44 million. The increase includes $78 million related to a legal settlement in 2012, in which we recovered losses previously incurred related to reimbursements of client losses on certain investment funds managed by an unaffiliated asset manager. The increase also includes a $6 million favorable comparative impact from certain changes in our estimated profitability of the business on the amortization of DAC and VOBA, which resulted in net charges of $18 million and $24 million in 2012 and 2011, respectively. These changes were primarily related to our annual review and update of assumptions performed in the third quarter, driven by a reduction to long-term interest and equity rate of return assumptions in 2012, and driven by changes to expense and net cash flow assumptions in 2011. Partially offsetting these increases in adjusted operating income was a $29 million charge in 2012 to write off an intangible asset due to the impact of the prolonged economic downturn on the expected results of a business we acquired in 2008, as well as a $9 million charge in 2012 from costs related to the divestiture of bank deposits in connection with our decision to limit the operations of Prudential Bank & Trust, FSB (PB&T) to trust services.

Excluding these items, adjusted operating income decreased $2 million, as higher asset-based fee income and net investment spread results were more than offset by higher general and administrative expenses, net of capitalization, and an unfavorable comparative reserve impact from case experience. The increase in asset-based fee income primarily reflects higher investment-only stable value account values driven by net additions, partially offset by lower full service fee income primarily due to outflows of contracts earning higher than average margins. The increase in net investment spread results primarily reflects higher institutional investment products account values, driven by two significant pension risk transfer transactions within our non-participating group annuity product offering in the fourth quarter of 2012. Also contributing to net investment spread results were increases from the impacts of crediting rate reductions, higher full service general account stable value account values and higher income from alternative investments, partially offset by decreases from the impacts of lower reinvestment rates and the divestiture of bank deposits in 2012. Higher general and administrative expenses, net of capitalization, primarily reflect increased costs to support strategic initiatives and business expansion, partially offset by lower costs related to legal matters. The unfavorable comparative reserve impact from case experience was primarily driven by unfavorable mortality experience in 2012. For additional information on the two significant pension risk transfer transactions in the fourth quarter of 2012, see Executive Summary Current Developments.

2011 to 2010 Annual Comparison. Adjusted operating income increased $29 million. The increase includes a $17 million unfavorable comparative impact from certain changes in our estimated profitability of the business on the amortization of DAC and VOBA, which resulted in net charges of $24 million and $7 million in 2011 and 2010, respectively. These changes were driven by quarterly adjustments for current period experience, as well our annual review and update of assumptions performed in the third quarter, driven by changes to expense and net cash flow assumptions in 2011, and driven by changes in lapse rate and fee-based profit margin assumptions in 2010.

Excluding these items, AOI increased $46 million, primarily reflecting higher asset-based fee income, partially offset by lower net investment spread results and higher general and administrative expenses, net of capitalization. Higher asset-based fee income was driven by an increase in investment-only stable value account values driven by net additions, and higher average full service fee-based account values driven by market appreciation. Lower net investment spread results were driven by lower reinvestment rates, and the unfavorable impact of changes in the market values of alternative investments and equity investments in certain separate accounts. Partially offsetting these declines were the impacts of crediting rate reductions and higher full service general account stable value account values. Higher general and administrative expenses, net of capitalization, were driven by costs related to legal matters and strategic initiatives, partially offset by a decline in charges related to certain cost reduction initiatives.

Revenues, Benefits and Expenses

2012 to 2011 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $31,724 million. Premiums increased $31,622 million, primarily driven by the significant pension risk transfer transactions discussed above. The increase in premiums resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, discussed below. Policy charges and fee income, and asset management fees and other income increased $77 million, primarily from higher asset-based fees on investment-only stable value account values and higher income from alternative investments accounted for under the fair value option, partially offset by lower asset-based fees on full service fee-based account values. Net investment income increased $25 million primarily reflecting the impacts of higher institutional investment products account values, driven by the significant pension risk transfer transactions, higher full service general account stable value account values, and a favorable impact from changes in the market values of equity-method alternative investments, partially offset by the impacts of lower portfolio yields and the divestiture of bank deposits in 2012.

Benefits and expenses, as shown in the table above under Operating Results, increased $31,680 million. Policyholders benefits, including the change in policy reserves, increased $31,723 million, driven by the significant pension risk transfer transactions associated with the increase in premiums discussed above. Absent this increase and the $46 million net decrease associated with the legal settlement, changes in our estimated profitability of the business on the amortization of DAC and VOBA, intangible asset write off and costs related

to the divestiture of bank deposits, discussed above, benefits and expenses increased $3 million. General and administrative expenses, net of capitalization, increased $12 million, primarily reflecting increased costs to support strategic initiatives and business expansion, partially offset by lower costs related to legal matters. The amortization of DAC increased $6 million, reflecting an increase from the amortization of acquisition costs related to the significant pension risk transfer transactions, partially offset by a decrease related to a refinement associated with certain structured settlements recorded in 2011. Interest credited to policyholders account balances decreased $20 million primarily driven by the impacts of crediting rate reductions and the divestiture of bank deposits in 2012, partially offset by the impact of higher full service general account stable value account values and an increase related to a refinement associated with certain structured settlements recorded in 2011.

2011 to 2010 Annual Comparison. Revenues decreased $312 million. Premiums decreased $286 million, driven by lower life-contingent structured settlement and single-premium annuity sales, partially offset by higher pension risk transfer transactions within our non-participating group annuity product offering. The decrease in premiums resulted in a corresponding decrease in policyholders benefits, including the change in policy reserves, discussed below. Net investment income decreased $60 million primarily reflecting lower portfolio yields and the unfavorable impact of changes in the market values of equity-method alternative investments and equity investments in certain separate accounts, partially offset by higher full service general account stable value account values. Policy charges and fee income and asset management fees and other income increased $34 million, primarily driven by an increase in asset-based fees due to an increase in investment-only stable value account values and average full service fee-based account values. These increases were partially offset by the unfavorable impact of changes in the market values of certain alternative investments accounted for under the fair value option.

Benefits and expenses decreased $341 million. Absent the $17 million increase from the impact of changes in our estimated profitability of the business on the amortization of DAC and VOBA discussed above, benefits and expenses decreased $358 million. Policyholders benefits, including the change in policy reserves, decreased $254 million, primarily reflecting a decrease in change in policy reserves associated with the decrease in premiums discussed above. Interest credited to policyholders account balances decreased $119 million including a refinement associated with certain structured settlements recorded in 2011. Also contributing to the decrease were the impacts of crediting rate reductions, partially offset by the impact of higher full service general account stable value account values. The amortization of DAC increased $22 million primarily driven by a refinement associated with certain structured settlement contracts recorded in 2011.

Table of Contents

Account Values

Our account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. For our fee-based products, the income we earn varies with the level of fee-based account values, since many policy fees are determined by these values. For our spread-based products, both the investment income and interest we credit to policyholders vary with the level of general account values. To a lesser extent, changes in account values impact our pattern of amortization of DAC and VOBA, and general and administrative expenses. The following table shows the changes in the account values and net additions (withdrawals) of Retirement segment products for the periods indicated. Net additions (withdrawals) are deposits and sales or additions, as applicable, minus withdrawals and benefits. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement segment. For more information on internally-managed balances see Asset Management.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Full Service(1):			
Beginning total account value	$ 139,430	$ 141,313	$ 126,345
Deposits and sales	16,390	16,821	19,266
Withdrawals and benefits	(19,223)	(19,160)	(16,804)
Change in market value, interest credited, interest income and other activity(2)	11,808	456	12,506
Ending total account value	$ 148,405	$ 139,430	$ 141,313
Net additions (withdrawals)	$ (2,833)	$ (2,339)	$ 2,462
Institutional Investment Products(3):			
Beginning total account value	$ 90,089	$ 64,183	$ 51,908
Additions(4)	55,005	27,773	15,298
Withdrawals and benefits(5)	(8,495)	(6,150)	(6,958)
Change in market value, interest credited and interest income	4,787	4,581	3,370
Other(6)	49	(298)	565
Ending total account value(7)	$ 141,435	$ 90,089	$ 64,183
Net additions(8)	$ 46,510	$ 21,623	$ 8,340

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $6.6 billion, $6.3 billion and $5.8 billion as of December 31, 2012, 2011 and 2010, respectively.
(2) Change in market value, interest credited and interest income and other activity includes $(1.4) billion for 2012 representing the divestiture of bank deposits held by PB&T, as a result of our decision to limit its operations to trust services. Other activity also includes $469 million in 2011 representing the addition of Prudential s non-qualified pension plan transferred from a third-party administrator.
(3) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plan of $6.1 billion, $5.8 billion and $5.4 billion as of December 31, 2012, 2011 and 2010, respectively. Ending total account value for the institutional investment products business also includes $1.9 billion, $1.5 billion and $1.5 billion as of December 31, 2012, 2011 and 2010, respectively, related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and $0.5 billion and $1.0 billion as of December 31, 2011 and 2010, respectively, related to affiliated funding agreements issued to Prudential Financial. For additional information, see Note 10 and Note 14 to the Consolidated Financial Statements.
(4) Additions include $1,008 million in 2012 representing transfers of externally-managed client balances to accounts we manage. These additions are offset within Other.
(5) Withdrawals and benefits include $(902) million, $(78) million and $(752) million for 2012, 2011 and 2010, respectively, representing transfers of client balances from accounts we manage to externally-managed accounts. These withdrawals are offset within Other.
(6) Other includes $(106) million, $78 million and $752 million for 2012, 2011 and 2010, respectively, representing net transfers of externally-managed client balances from/(to) accounts we manage. These transfers are offset within Additions or Withdrawals and benefits.
(7) Ending total account value for the institutional investment products business includes investment-only stable value account values of $60.8 billion, $41.3 billion and $17.7 billion as of December 31, 2012, 2011 and 2010, respectively, and $33.7 billion as of December 31, 2012 related to the two significant pension risk transfer transactions in the fourth quarter of 2012.

(8) Net additions for the institutional investment products business include investment-only stable value net additions of $17.5 billion, $22.3 billion and $12.6 billion for 2012, 2011 and 2010, respectively, and $33.6 billion for 2012 related to the two significant pension risk transfer transactions in the fourth quarter of 2012.

Table of Contents

2012 to 2011 Annual Comparison. The increase in full service account values primarily reflects equity market appreciation in 2012, partially offset by net withdrawals and the divestiture of bank deposits discussed above. The increase in net withdrawals was primarily due to an increase in the value of participant withdrawals, driven by the impact of equity market appreciation on account values.

The increase in institutional investment products account values primarily reflects net additions and increases in the market value of customer funds driven by declines in fixed income yields. The increase in net additions was driven by the two significant pension risk transfer transactions discussed above, partially offset by a decrease in sales of our investment-only stable value product, resulting from some of our existing intermediary relationships nearing saturation levels.

2011 to 2010 Annual Comparison. The decrease in full service account values was primarily driven by net withdrawals over the last twelve months. The decrease in net additions (withdrawals) primarily reflects a lower volume of large new plan sales and higher plan lapses, driven by higher account values and a higher volume of large plan lapses.

The increase in institutional investment products account values was driven by additions of our investment-only stable value and structured settlements products, as well as sales of our longevity reinsurance product, which we introduced in 2011. To a lesser extent, the increase in account values was also driven by increases in the market value of customer funds primarily from declines in fixed income yields, partially offset by decreases in account values from declines in general account guaranteed investment product account values. The increase in net additions primarily reflects higher sales of our investment-only stable value and longevity reinsurance products, and lower general account guaranteed investment product scheduled withdrawals.

Asset Management

Operating Results

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

	Year ended December 31,		
	2012	**2011**	**2010**
		(in millions)	
Operating results:			
Revenues	$ 2,398	$ 2,531	$ 2,005
Expenses	1,895	1,749	1,499
Adjusted operating income	503	782	506
Realized investment gains (losses), net, and related adjustments	(47)	(1)	13
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	68	65	(2)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 524	$ 846	$ 517

Adjusted Operating Income

2012 to 2011 Annual Comparison. Adjusted operating income decreased $279 million. The decrease reflects a $131 million lower contribution from the segment s strategic investing activities in 2012 largely due to $69 million of declines in values in two real estate investments, one of which was sold in 2012, while strategic investing activities in 2011 included a $64 million gain on a partial sale of a real estate seed investment. The decrease in adjusted operating income also reflects the absence of a $96 million gain on sale of our investment in an operating joint venture in 2011, as discussed below. Additionally, results for 2012 reflect an increase in operating expenses reflecting business growth, increased expenses related to new fund launches and increased compensation costs.

These decreases were partially offset by an increase in asset management fees, before associated expenses, primarily from institutional and retail customer assets as a result of higher asset values due to positive net asset flows and market appreciation in 2012.

Table of Contents

2011 to 2010 Annual Comparison. Adjusted operating income increased $276 million. Results in 2011 reflect an increase in asset management fees, before associated expenses, of $215 million primarily from retail and institutional customer assets as a result of higher asset values due to positive net asset flows primarily into fixed income accounts as well as market appreciation in 2011. Also contributing to the increase was a $96 million gain on sale of our investment in an operating joint venture, Afore XXI, a pension fund manager in Mexico. Results from the segment s commercial mortgage activities increased $77 million primarily driven by lower net credit and valuation-related charges on interim loans of $64 million resulting primarily from loan payoffs in 2011 and $20 million of higher gains on sales of foreclosed commercial real estate assets in 2011. Also, results of the segment s strategic investing activities increased $68 million primarily due to a $64 million gain resulting from the partial sale of a real estate seed investment in 2011 as discussed above.

These increases were partially offset by increased operating expenses, primarily related to compensation as well as other costs supporting the business.

Revenues and Expenses

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Revenues by type:			
Asset management fees by source:			
Institutional customers	$ 775	$ 729	$ 639
Retail customers(1)	509	452	372
General account	383	360	315
Total asset management fees	1,667	1,541	1,326
Incentive fees	15	50	71
Transaction fees	40	35	23
Strategic investing	(12)	118	49
Commercial mortgage(2)	164	136	67
Other related revenues	207	339	210
Service, distribution and other revenues(3)	524	651	469
Total revenues	$ 2,398	$ 2,531	$ 2,005

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

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

(3) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $66 million in 2012, $74 million in 2011 and $66 million in 2010.

2012 to 2011 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $133 million. Strategic investing revenues decreased $130 million reflecting $69 million of declines in values in two real estate investments, one of which was sold in 2012, while strategic investing activities in 2011 include the gain on a partial sale of a real estate seed investment, as discussed above. Service, distribution and other revenues decreased $127 million primarily due to the absence of the gain on the sale of our investment in Afore XXI in 2011. Performance-based incentive fees decreased $35 million primarily reflecting lower net asset values from institutional real estate funds resulting from market value declines. A portion of incentive-based fees are offset in incentive compensation expense in accordance with the terms of contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of December 31, 2012, $84 million in cumulative incentive

Table of Contents

fee revenue, net of compensation, is subject to future adjustment. Future incentive, transaction, strategic investing and commercial mortgage revenues will be impacted by the level and diversification of our strategic investments, the commercial real estate market, and other domestic and international market conditions.

Partially offsetting the decreases in revenue above was an increase in asset management fees of $126 million primarily from the management of institutional and retail customer assets as a result of higher asset values. In addition commercial mortgage revenues increased $28 million primarily reflecting higher origination volume.

Expenses, as shown in the table above under Operating Results, increased $146 million primarily driven by business growth, increased expenses related to new fund launches and increased compensation costs.

2011 to 2010 Annual Comparison. Revenues increased $526 million including a $215 million increase in asset management fees primarily from institutional and retail customer assets as a result of higher asset values. Service, distribution and other revenues increased $182 million primarily from the gain on the sale of our investment in Afore XXI and higher mutual fund service fees, a portion of which are offset with a corresponding increase in expenses. Service, distribution and other revenues also includes higher revenues from certain consolidated funds, which were fully offset by higher expenses related to noncontrolling interest in these funds. Commercial mortgage revenues increased $69 million primarily reflecting lower net credit and valuation-related charges on interim loans and higher gains on sales of foreclosed real estate assets, as discussed above. Strategic investing revenues increased $69 million resulting from the gain on a partial sale of a real estate seed investment discussed above.

Partially offsetting these increases was a decrease in performance-based incentive fees of $21 million primarily driven by lower net asset values of institutional real estate funds reflecting the impact of foreign currency fluctuations on these funds in the prior year, a portion of which has been hedged since late 2010, as well as a decline in real estate values in 2011. A portion of incentive-based fees are offset in incentive compensation expense in accordance with the terms of contractual agreements.

Expenses increased $250 million primarily driven by increased compensation costs, from increased revenues, as discussed above, and increased headcount, as well as increases in other costs supporting the business. In addition, expenses related to revenues associated with certain consolidated funds and mutual funds services increased, as discussed above.

Assets Under Management

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

	December 31,		
	2012	2011	2010
	(in billions)		
Assets Under Management (at fair market value):			
Institutional customers:			
Equity	$ 51.7	$ 46.3	$ 53.3
Fixed income	230.8	197.8	160.9

Real estate	31.2	27.7	23.6
Institutional customers(1)(2)	313.7	271.8	237.8
Retail customers:			
Equity	86.6	71.7	73.9
Fixed income	50.3	46.2	35.2
Real estate	1.8	1.4	1.5
Retail customers(3)	138.7	119.3	110.6
General account:			
Equity	9.4	8.7	7.7
Fixed income	363.7	316.7	248.8
Real estate	1.5	1.3	0.9
General account	374.6	326.7	257.4
Total assets under management	$ 827.0	$ 717.8	$ 605.8

(1) Consists of third party institutional assets and group insurance contracts.
(2) As of December 31, 2012, 2011, and 2010, includes $37.2 billion, $29.7 billion, and $17.7 billion, respectively, of assets under management related to investment-only stable value products.
(3) Consists of: (a) individual mutual funds and both variable annuities and variable life insurance assets in our separate accounts; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third-party sub-advisory relationships. Fixed annuities and the fixed-rate accounts of both variable annuities and variable life insurance are included in the general account.

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

	Institutional Customers	Retail Customers (in billions)	General Account
As of December 31, 2010	$ 237.8	$ 110.6	$ 257.4
Net additions (withdrawals), excluding money market activity:			
Third party(1)	16.9	5.7	0
Affiliated(2)(3)	(2.8)	14.1	42.9
Total	14.1	19.8	42.9
Market appreciation	19.7	1.1	22.0
Other increases (decreases)(4)	0.2	(12.2)	4.4
As of December 31, 2011	271.8	119.3	326.7
Net additions (withdrawals), excluding money market activity:			
Third party(1)	17.2	12.8	0
Affiliated(2)(3)	(1.5)	(6.2)	37.6
Total	15.7	6.6	37.6
Market appreciation	26.2	13.4	15.3
Other increases (decreases)(4)	0	(0.6)	(5.0)
As of December 31, 2012	$ 313.7	$ 138.7	$ 374.6

(1) Institutional third-party net additions include net additions into fixed income accounts of $6.4 billion and $10.0 billion related to investment-only stable value products for the years ended December 31, 2012 and 2011, respectively.
(2) Retail affiliated net additions (withdrawals) primarily represent asset transfers in or (out) of fixed income funds due to the automatic rebalancing feature within certain variable annuities products.
(3) General account affiliated net additions (withdrawals) includes net additions of $31.0 billion for the year ended December 31, 2012 from two significant pension risk transfer transactions in the Retirement segment and net additions of $40.4 billion for the year ended December 31, 2011 from the acquisition of the Star and Edison Businesses.
(4) Other includes the effect of foreign exchange rate changes and net money market activity. Other in 2011 also includes the sale of our investment in the Afore XXI operating joint venture and transfers from the Retirement segment as a result of changes in the client contract form.

Strategic Investments

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

	December 31, 2012	December 31, 2011
	(in millions)	
Co-Investments:		
Real estate	$ 437	$ 464
Fixed income	54	30
Seed Investments:		
Real estate	32	19
Public equity	230	208
Fixed income	223	209
Loans Secured by Investor Equity Commitments or Fund Assets:		
Real estate secured by investor equity	25	50
Private equity secured by investor equity	0	61
Real estate secured by fund assets	0	99
Total	$ 1,001	$ 1,140

Table of Contents

In addition to the strategic investments above, the Asset Management segment s commercial mortgage operations maintains an interim loan portfolio. See General Account Investments Invested Assets of Other Entities and Operations Commercial Mortgage and Other Loans below for additional details.

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Operating results:			
Revenues	$ 3,367	$ 2,900	$ 2,817
Benefits and expenses	2,983	2,418	2,335
Adjusted operating income	384	482	482
Realized investment gains (losses), net, and related adjustments	(38)	(21)	(39)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 346	$ 461	$ 443

Adjusted Operating Income

2012 to 2011 Annual Comparison. Adjusted operating income decreased $98 million including a $54 million unfavorable comparative change from the impact of certain changes in the estimated profitability of the business on the amortization of DAC and unearned revenue reserves (URR) as well as the impact on the reserve for the GMDB feature in certain contracts. These changes were based on the annual review and update of economic and actuarial assumptions, which resulted in a net charge of $27 million in 2012 driven by a reduction to long-term interest rate and equity return assumptions and a net benefit of $27 million in 2011, driven by more favorable lapse and mortality experience.

Absent the effect of these items, adjusted operating income decreased $44 million driven by $20 million of transaction and other costs associated with our acquisition of The Hartford s individual life insurance business and a $13 million decrease in earnings reflecting the impact of mortality experience, net of reinsurance, which was more unfavorable in the current period, in comparison to 2011. Also contributing to the decrease in adjusted operating income was a decline in earnings from our variable products primarily due to the continued expected run-off of variable policies in force and lower net investment results from declines in portfolio reinvestment rates. These unfavorable items were partially offset by greater contributions from our universal life insurance products reflecting business growth.

For weighted average rate of return assumptions and additional information on our policy for amortizing DAC and URR, and for estimating future expected claims costs associated with the GMDB feature of our variable and universal life insurance products as of December 31, 2012, see Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

2011 to 2010 Annual Comparison. Adjusted operating income was unchanged from 2010 due to a number of offsetting items. Results in 2011 included a $27 million benefit reflecting the impact of certain changes in the estimated profitability of the business related to the annual review and update of economic and actuarial assumptions, as discussed above, compared to a $28 million benefit from the annual review in 2010. Results for 2011 also benefitted from business growth associated with our universal life insurance products and mortality experience, net of reinsurance, which was $12 million less unfavorable compared to 2010. Partially offsetting these favorable items was an $11 million expense resulting from changes in our estimates of total gross profits arising from separate account fund performance, largely reflecting the comparative impact of equity markets on separate account fund performance. Lower than expected market returns in 2011 resulted in a net expense of $4 million whereas higher than expected market returns in 2010 resulted in a $7 million net benefit.

Table of Contents

Revenues, Benefits and Expenses

2012 to 2011 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $467 million. This increase was primarily driven by a $403 million increase in policy charges and fees and asset management fees and other income including $227 million from higher amortization of URR. The increase in amortization of URR reflects the impact of the annual reviews and update of economic and actuarial assumptions partially offset by the impact of changes in our estimates of total gross profits primarily reflecting more favorable market conditions on separate account fund performance. The increase in policy charges and fees and asset management fees and other income also reflects a $73 million increase in income on an affiliated note received as part of a financing transaction for certain regulatory capital requirements which was offset by higher interest expense, as described below, as well as growth in our universal life insurance business and higher income from alternative investments. These favorable items were partially offset by the ongoing impact of run-off of variable life insurance inforce. Net investment income increased $55 million reflecting business growth, partially offset by the impact of lower portfolio reinvestment rates.

Benefits and expenses, as shown in the table above under Operating Results, increased $565 million, including the impact of $300 million associated with annual reviews conducted in both periods. Absent these annual reviews, the increase in benefits and expenses was $265 million which includes higher interest expense of $102 million reflecting higher costs associated with the financing of regulatory capital requirements, of which $73 million related to a financing transaction associated with certain universal life insurance policies is offset in revenues. Policyholders benefits increased $80 million driven by growth in our term and universal life blocks of business. The increase in benefits and expenses also included $52 million of higher general and administrative expenses, net of capitalization, including the impact of increased sales and $20 million of transaction and other costs associated with our acquisition of The Hartford s individual life insurance business. In addition, interest credited to policyholders account balances increased $30 million primarily reflecting higher universal life account balances from policyholder deposits. These unfavorable items were partially offset by a $28 million benefit on DAC amortization resulting from more favorable market conditions on separate account fund performance in comparison to 2011.

2011 to 2010 Annual Comparison. Revenues increased $83 million driven by higher net investment income of $75 million reflecting higher asset balances resulting from increased policyholder deposits and higher regulatory capital requirements associated with our universal life insurance product. Policy charges and fees and asset management fees and other income increased $6 million, including a $24 million reduction in amortization of URR reflecting the impact of the annual reviews and update of economic and actuarial assumptions, as discussed above. These favorable items were partially offset by a decline in revenue from our variable insurance products primarily due to the run-off of variable policies inforce.

Benefits and expenses increased $83 million driven by higher interest expense of $52 million primarily reflecting higher borrowings related to the financing of regulatory capital requirements associated with certain term and universal life insurance policies which was offset in revenues. Insurance and annuity benefits, including interest credited to policyholders account balances, increased $16 million primarily reflecting an increase in interest credited to policyholders from higher universal life account balances from increased policyholder deposits and increases in policyholder reserves driven by growth in our term and universal life blocks of business. This was partially offset by less unfavorable mortality experience of $12 million in 2011 compared to 2010. Additionally, amortization of DAC increased $15 million driven by the comparative impact of less favorable market conditions on separate account fund performance.

Table of Contents

Sales Results

The following table sets forth individual life insurance annualized new business premiums for the periods indicated.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Annualized New Business Premiums(1):			
Variable Life	$ 21	$ 25	$ 23
Universal Life	218	95	77
Term Life	173	158	160
Total	$ 412	$ 278	$ 260
Annualized new business premiums by distribution channel(1):			
Prudential Agents	$ 90	$ 84	$ 84
Third party	322	194	176
Total	$ 412	$ 278	$ 260

(1) Excludes corporate-owned life insurance.

2012 to 2011 Annual Comparison. Annualized new business premiums increased $134 million primarily driven by increased sales of universal life insurance products in the third party distribution channel due to a change in the competitive position of our products.

2011 to 2010 Annual Comparison. Annualized new business premiums increased $18 million primarily driven by increased sales in the third party distribution channel. This increase was attributable to higher sales of universal life insurance products driven by a change in the competitive position of our products.

Group Insurance

Operating Results

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Operating results:			

Revenues	$ 5,601	$ 5,606	$ 5,040
Benefits and expenses	5,585	5,443	4,866
Adjusted operating income	16	163	174
Realized investment gains (losses), net, and related adjustments	(8)	11	(42)
Related charges	0	(2)	(1)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 8	$ 172	$ 131

Adjusted Operating Income

2012 to 2011 Annual Comparison. Adjusted operating income decreased $147 million reflecting higher operating expenses in 2012 primarily from an increase in legal reserves, updates to premium tax estimates, and costs for strategic initiatives. Group life underwriting results were less favorable in 2012, primarily driven by unfavorable claims experience on non-retrospectively experience-rated contracts resulting from an increase in severity partially offset by lower claims incidence. The unfavorable underwriting results for group life also reflect the absence of a benefit from cumulative premium adjustments in 2011, as discussed below. Group disability underwriting results were less favorable in 2012. New long term disability claims outpaced an increase in claim terminations as the economy slowly improves. We are investing in our claims management process which, over time, should drive improvements in this area. Also, reserve refinements in both group life and group disability businesses, including the impact of annual actuarial assumption updates, contributed a $7 million benefit to adjusted operating income in 2012 compared to a benefit of $22 million in 2011. Partially offsetting these unfavorable items was improved investment income in 2012 primarily from alternative investments.

2011 to 2010 Annual Comparison. Adjusted operating income decreased $11 million. Reserve refinements in both group life and group disability businesses, including the impact of annual actuarial assumption updates, contributed a $22 million benefit to adjusted operating income in 2011 compared to a benefit of $35 million in 2010. Excluding these reserve refinements, adjusted operating income increased $2 million primarily from more favorable underwriting results in 2011 in our group life business related to favorable claims experience, growth in our non-retrospectively experience-rated business and a benefit of $14 million from cumulative premium adjustments relating to prior periods on two large non-retrospectively experience-rated cases. These increases were partially offset by less favorable group disability underwriting results in 2011 primarily related to an increase in the number and severity of long-term disability claims reflecting the continued economic downturn. In addition, results in 2011 reflect higher operating expenses due to business growth and strategic initiatives as well as a decrease in investment results due to less favorable results from alternative investments and lower reinvestment rates.

Revenues, Benefits and Expenses

2012 to 2011 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $5 million. Group life premiums and policy charges and fee income decreased $82 million primarily reflecting lower premiums from retrospectively experience-rated contracts, largely resulting from a decrease in policyholder benefits. Partially offsetting this decrease are higher premiums from non-retrospectively experience-rated contracts reflecting growth in the business, partially offset by the benefit from cumulative premium adjustments in 2011. Group disability premiums and policy charges and fee income increased $42 million primarily reflecting growth of business in force and from new sales. Investment income also increased in 2012 primarily from income on alternative investments, partially offset by a decline in reinvestment rates.

Benefits and expenses, as shown in the table above under Operating Results, increased $142 million reflecting higher operating expenses primarily from an increase in legal reserves, updates to premium tax estimates and costs of strategic initiatives. This increase also reflects a $54 million increase in policyholders benefits, including the change in policy reserves. Our group disability business reflects an increase in policyholders benefits primarily from an increase in the number and severity of long-term disability claims and growth in the business. Our group life business reflects a decrease in benefits costs on retrospectively experience-rated business that resulted in decreased premiums, as discussed above. This is partially offset by unfavorable claims experience from an increase in severity resulting in an increase in benefits from growth in the non-retrospectively experience-rated business, as well as the unfavorable variance from reserve refinements, as discussed above.

2011 to 2010 Annual Comparison. Revenues increased $566 million. Group life premiums and policy charges and fee income increased $526 million. This increase primarily reflects higher premiums from non-retrospectively experience-rated contracts reflecting growth in the business from new sales and continued strong persistency of 95.8% in 2011 compared to 92.1% in 2010, as well as higher premiums from retrospectively experience-rated contracts resulting from the increase in policyholder benefits on these contracts, as discussed below. 2011 also includes the benefit from cumulative premium adjustments, as discussed above. In addition, group disability premiums and policy charges and fee income increased $45 million primarily reflecting growth of business in force and from new sales.

Benefits and expenses increased $577 million. This increase reflects a $536 million increased in policyholders benefits, including the change in policy reserves. Our group life business reflected an increase in policyholders benefits primarily from growth in the business, including an increase in benefits on retrospectively experience-rated business that resulted in increased premiums, as discussed above. Our group disability business reflected an increase in policyholders benefits primarily from an increase in the number and severity of disability claims, as well as growth in the business. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth and strategic initiatives.

Table of Contents

Benefits and Expense Ratios

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

	Year ended December 31,		
	2012	**2011**	**2010**
Benefits ratio(1):			
Group life	90.9%	89.5%	89.7%
Group disability	98.1%	94.7%	91.2%
Administrative operating expense ratio(2):			
Group life	10.0%	8.5%	9.0%
Group disability	25.3%	24.8%	24.2%

(1) Ratio of policyholder benefits to earned premiums, policy charges and fee income. Group disability ratios include dental products.
(2) Ratio of administrative operating expenses (excluding commissions) to gross premiums, policy charges and fee income. Group disability ratios include dental products.

2012 to 2011 Annual Comparison. The group life benefits ratio deteriorated 1.4 percentage points primarily due to less favorable claims experience in the non-retrospectively experience-rated business as well as the unfavorable impact of the reserve refinements and the cumulative premium adjustment in 2011, as discussed above. The group disability benefits ratio deteriorated 3.4 percentage points primarily due to an increase in the number and severity of long-term disability claims experience. The group life administrative operating expense ratio deteriorated 1.5 percentage points primarily due to an increase in operating costs, legal reserves and the unfavorable comparative impact of updates to premium tax estimates, as discussed above. The group disability administrative operating expense ratio deteriorated 0.5 due to an increase in operating costs, as discussed above.

2011 to 2010 Annual Comparison. The group life benefits ratio improved 0.2 percentage points, primarily due to favorable claims experience, partially offset by an unfavorable variance from the impact of reserve refinements, as discussed above. The group disability benefits ratio deteriorated 3.5 percentage points primarily due to an increase in the number and severity of long-term disability claims experience. The group life administrative operating expense ratio improved 0.5 percentage points due to business growth without a commensurate increase in expenses and a favorable comparative impact from the refinement of a premium tax estimate. The group disability administrative operating expense ratio deteriorated 0.6 percentage points reflecting higher expenses in 2011 primarily from business growth and strategic initiatives.

Sales Results

The following table sets forth the Group Insurance segment s annualized new business premiums for the periods indicated.

	Year ended December 31,		
	2012	**2011**	**2010**
		(in millions)	
Annualized new business premiums(1):			
Group life	$ 304	$ 486	$ 446
Group disability(2)	135	149	122

Total	$ 439	$ 635	$ 568

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under our Servicemembers Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts, and include premiums from the takeover of claim liabilities.
(2) Includes dental products.

2012 to 2011 Annual Comparison. Total annualized new business premiums decreased $196 million reflecting the impact of a large market case sale to a new customer in 2011 in group life, as well as a decrease in sales of long-term disability to existing clients.

Table of Contents

2011 to 2010 Annual Comparison. Total annualized new business premiums increased $67 million reflecting the impact of the group life large market case sale discussed above as well as increased sales across all disability products.

International Insurance Division

Foreign Currency Exchange Rate Movements and Related Hedging Strategies

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

The operations of our International Insurance Division are subject to currency fluctuations that can materially affect their U.S. dollar-equivalent earnings from period to period, even if earnings on a local currency basis are relatively constant. We enter into forward currency derivative contracts, and hold dual currency and synthetic dual currency investments, as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar-denominated earnings streams, thereby reducing earnings volatility from foreign currency exchange rate movements. The forward currency hedging program is primarily associated with our insurance operations in Japan and Korea. In addition, our Japanese insurance operations offer a variety of non-yen denominated products which are supported by investments in corresponding currencies. While these non-yen denominated assets and liabilities are economically hedged, the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements differs, resulting in volatility in reported U.S. GAAP earnings. For further information on the various hedging strategies used to mitigate the risks of foreign currency exchange rate movements on earnings, see Impact of foreign currency exchange rate movements on earnings.

We utilize a yen hedging strategy that calibrates the level of hedges to preserve the relative contribution of our yen-based business to the Company s overall return on equity. Our hedges include a variety of instruments, including U.S. dollar-denominated assets held locally by our Japanese insurance subsidiaries financed by the combination of U.S. GAAP equity and yen-denominated liabilities. We may also hedge using instruments held in our U.S. domiciled entities, such as U.S. dollar-denominated debt that has been swapped to yen.

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

	December 31, 2012	December 31, 2011
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	$ 2.9	$ 2.5
Dual currency and synthetic dual currency investments(2)	0.9	1.0
	3.8	3.5
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity:		
Available-for-sale U.S. dollar-denominated investments, at amortized cost	7.0	6.8

Held-to-maturity U.S. dollar-denominated investments, at amortized cost	0.3	0.3
Other	0.1	0.1
U.S. dollar-denominated assets held in yen-based entities(3)	7.4	7.2
Yen-denominated liabilities held in U.S. dollar-based entities(4)	0.8	0.8
	8.2	8.0
Total hedges	$ 12.0	$ 11.5

(1) Represents the notional amount of forward currency contracts outstanding.
(2) Represents the present value of future cash flows, on a U.S. dollar-denominated basis.

(3) Excludes $26.8 billion and $23.7 billion as of December 31, 2012 and 2011, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.
(4) The yen-denominated liabilities are reported in Corporate and Other operations.

The U.S. dollar-denominated investments that hedge the U.S. dollar-equivalent shareholder return on equity from our Japanese insurance operations are recorded on the books of yen-based entities and, as a result, foreign currency exchange rate movements will impact their value on the local books of our yen-based Japanese insurance entities. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of these U.S. dollar-denominated investments on the local books of our yen-based Japanese insurance entities and therefore negatively impact their equity and regulatory solvency margins by employing internal hedging strategies between a subsidiary of Prudential Financial and these yen-based entities. These internal hedging strategies have the economic effect of moving the change in value of these U.S. dollar-denominated investments due to foreign currency exchange rate movements from our Japanese yen-based entities to our U.S. dollar-based entities. See Liquidity and Capital Resources Liquidity Liquidity associated with other activities Foreign exchange hedging activities for a discussion of our internal hedging strategies.

These U.S. dollar-denominated investments also pay a coupon which is generally higher than what a similar yen-denominated investment would pay. The incremental impact of this higher yield on our U.S. dollar-denominated investments, as well as our dual currency and synthetic dual currency investments discussed below, will vary over time, and is dependent on the duration of the underlying investments, as well as interest rate environments in the U.S. and Japan at the time of the investments. See General Account Investments Investment Results for a discussion of the investment yields generated by our Japanese insurance operations.

Impact of foreign currency exchange rate movements on earnings

Forward currency hedging program

The financial results of our International Insurance segment reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment s non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. The fixed rates are determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment s U.S. dollar-equivalent earnings. Pursuant to this program, Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings for certain currencies in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of non-yen denominated earnings that will be generated by non-yen denominated products and investments, both of which are discussed in greater detail below.

As a result of this intercompany arrangement, our International Insurance segment s results for 2012 and 2011 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 85 and 92 yen per U.S. dollar, respectively, and 1180 and 1190 Korean won per U.S. dollar, respectively. Results for 2013 will reflect the impact of translating yen and Korean won-denominated earnings at fixed currency exchange rates of 80 yen per U.S. dollar and 1160 Korean won per U.S. dollar.

Table of Contents

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
International Insurance Segment:			
Impact of intercompany arrangement(1)	$ (92)	$ (178)	$ (102)
Corporate and Other operations:			
Impact of intercompany arrangement(1)	92	178	102
Settlement losses on forward currency contracts	(72)	(137)	(97)
Net benefit to Corporate and Other operations	20	41	5
Net impact on consolidated revenues and adjusted operating income	$ (72)	$ (137)	$ (97)

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

As of December 31, 2012 and 2011, the notional amounts of these forward currency contracts were $3.4 billion and $3.0 billion, respectively, of which $2.9 billion and $2.5 billion, respectively, were related to our Japanese insurance operations.

Dual currency and synthetic dual currency investments hedging program

In addition, our Japanese insurance operations hold dual currency investments in the form of fixed maturities and loans. The principal of these dual currency investments is yen-denominated while the related interest income is U.S. dollar-denominated. These investments are the economic equivalent of exchanging what would otherwise be fixed streams of yen-denominated interest income for fixed streams of U.S. dollar-denominated interest income. Our Japanese insurance operations also hold yen-denominated investments that have been coupled with cross-currency coupon swap agreements, creating synthetic dual currency investments. The yen/U.S. dollar exchange rate is effectively fixed, as we are obligated in future periods to exchange fixed amounts of yen interest payments generated by the yen-denominated investments for fixed amounts of U.S. dollar interest payments at the yen/U.S. dollar exchange rates specified by the cross-currency coupon swap agreements. As of December 31, 2012 and 2011, the notional amount of these investments was ¥235 billion, or $2.2 billion, and ¥280 billion, or $2.5 billion, respectively, based upon the foreign currency exchange rates applicable at the time these investments were acquired. The table below sets forth the fair value of these instruments as reflected on our balance sheet for the periods indicated.

	December 31,	
	2012	2011
	(in millions)	
Cross-currency coupon swap agreements	$ (7)	$ (105)
Foreign exchange component of interest on dual currency investments	(92)	(128)
Total	$ (99)	$ (233)

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

Our international insurance operations primarily offer products denominated in local currency. However, several of our international insurance operations, most notably our Japanese operations, also offer products denominated in non-local currencies, primarily comprised of U.S. and Australian dollar-denominated products. The non-yen denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While

Table of Contents

the impact from foreign currency exchange rate movements on these non-yen denominated assets and liabilities is economically matched, the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements differs, resulting in volatility in U.S. GAAP earnings. For example, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in AOCI, whereas the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, and the related changes in value are recorded in earnings within Asset management fees and other income. Investments designated as held-to-maturity under U.S. GAAP are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements, with the related change in value recorded in earnings within Asset management fees and other income. Due to this non-economic volatility that is reflected in U.S. GAAP earnings, the gains and losses resulting from the remeasurement of these non-yen denominated liabilities, and certain related non-yen denominated assets, are excluded from adjusted operating income and included in Realized investment gains (losses), net, and related adjustments. For the years ended December 31, 2012, 2011 and 2010, Realized investment gains (losses), net, and related adjustments includes net losses of $1,570 million, net gains of $807 million, and net gains of $121 million, respectively, reflecting the remeasurement of these non-yen denominated insurance liabilities, which are presented in the table below, and the remeasurement of certain related non-yen denominated assets.

We continue to expect volatility in U.S. GAAP earnings resulting from the remeasurement mismatch described above. For example, based on the December 31, 2012 non-yen denominated balances subject to remeasurement (including those presented in the table below), if we applied a hypothetical 5% depreciation in value of the yen relative to the U.S. and Australian dollar, we estimate this would result in net losses of approximately $1.2 billion reflected in U.S. GAAP earnings. These net losses would largely be offset by a corresponding increase in unrealized gains in AOCI. Conversely, a 5% appreciation in value of the yen relative to these currencies would have an equal but opposite effect.

The table below presents the carrying value of non-yen denominated insurance liabilities within our Japanese insurance operations as of the periods indicated.

	December 31,	
	2012	2011
	(in billions)	
U.S. dollar-denominated products	$ 19.9	$ 18.9
Australian dollar-denominated products	7.9	6.2
Euro-denominated products	0.4	0.2
Total	$ 28.2	$ 25.3

1. Excludes $5.7 billion and $4.5 billion of insurance liabilities for U.S. dollar-denominated products as of December 31, 2012 and 2011, respectively, that are associated with Prudential of Japan. These liabilities are coinsured to our U.S. domiciled insurance entities and supported by U.S. dollar-denominated assets and are not subject to the remeasurement mismatch described above.

International Insurance

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 80 yen per U.S. dollar and Korean won at a rate of 1160 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

Table of Contents

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Operating results:			
Revenues:			
Life Planner operations	$ 9,002	$ 8,202	$ 7,252
Gibraltar Life and Other operations	20,584	11,365	4,819
	29,586	19,567	12,071
Benefits and expenses:			
Life Planner operations	7,521	6,956	6,103
Gibraltar Life and Other operations	19,361	10,348	4,081
	26,882	17,304	10,184
Adjusted operating income:			
Life Planner operations	1,481	1,246	1,149
Gibraltar Life and Other operations	1,223	1,017	738
	2,704	2,263	1,887
Realized investment gains (losses), net, and related adjustments(1)	(1,989)	596	(281)
Related charges	(60)	(18)	(13)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	204	(160)	33
Change in experience-rated contractholder liabilities due to asset value changes	(204)	160	(33)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(58)	(244)	(65)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 597	$ 2,597	$ 1,528

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

Acquisition and Integration of the former Star and Edison Businesses

On February 1, 2011, Prudential Financial completed the acquisition from AIG of the Star and Edison Businesses pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The Star and Edison companies were merged into Gibraltar Life on January 1, 2012. See Note 3 to the Consolidated Financial Statements for further information.

We have made significant progress integrating the acquired former Star and Edison businesses with Gibraltar Life and, as a result, anticipate incurring approximately $450 million of total integration costs, which is lower than our original expectations. In aggregate, we have incurred $312 million of pre-tax integration costs, of which, $138 million was in 2012 and $174 million was in 2011. After integration is complete, we continue to expect annual cost savings of approximately $250 million and, as of December 31, 2012, have already achieved approximately 80% of this annual savings. Actual integration costs may exceed, and actual cost savings may fall short of, such expectations.

Adjusted Operating Income

2012 to 2011 Annual Comparison. Adjusted operating income from Life Planner operations increased $235 million including a net favorable impact of $54 million from currency fluctuations. The current year benefited $20 million from a reduction in the amortization of deferred policy acquisition costs and lower reserves, reflecting the impact of our annual review and update of assumptions used in estimating the profitability of the business. In addition, the increase in adjusted operating income reflects the comparative impact of a $12 million charge associated with estimated claims and expenses arising from the 2011 earthquake in Japan, and a $6 million benefit in 2012 resulting from a cash distribution received from the Japan Financial Stability Fund. Excluding the impact of these items, adjusted operating income for our Life Planner operations increased $143 million, primarily reflecting the growth of business in force driven by sales results and continued strong persistency in our Japanese Life Planner operation, partly offset by the impact of lower reinvestment rates.

Table of Contents

Adjusted operating income from our Gibraltar Life and Other operations increased $206 million including a favorable impact of $51 million from currency fluctuations and the absence of a $49 million charge associated with claims and expenses arising from the 2011 earthquake in Japan. Additionally, results for 2012 include $138 million of integration costs relating to the acquisition of the Star and Edison Businesses compared to $213 million of integration and transaction costs in 2011. Partly offsetting these favorable variances is a $15 million net charge in the current year reflecting the impact of certain charges related to our life insurance joint venture in India offset by a cash distribution received from the Japan Financial Stability Fund. Both periods benefited from the impact of partial sales of our investment, through a consortium, in China Pacific Group, which contributed a $60 million benefit to 2012 results compared to a $237 million benefit in 2011.

Excluding the effect of the items discussed above, adjusted operating income from our Gibraltar Life and Other operations increased $223 million, primarily reflecting cost savings of $165 million resulting from Star and Edison integration synergies, compared to $21 million of cost savings in 2011, as well as business growth, particularly in the bank distribution channel, and the impact of including two additional months of earnings from the former Star and Edison Businesses. These favorable items were partly offset by higher benefits and expenses, including costs supporting distribution channel growth, less favorable mortality in comparison to the prior year and the impact of lower reinvestment rates.

2011 to 2010 Annual Comparison. Adjusted operating income from our Life Planner operations increased $97 million including a net favorable impact of $11 million from currency fluctuations. Excluding currency fluctuations, adjusted operating income increased $86 million primarily reflecting the growth of business in force driven by sales and continued strong persistency in our Japanese Life Planner operation and to a lesser extent, lower administrative expenses due in part to the absence of certain costs incurred in 2010. Partially offsetting these favorable variances were charges of $12 million associated with claims and expenses arising from the March 2011 earthquake in Japan and less favorable mortality experience in Japan and Korea.

Adjusted operating income from our Gibraltar Life and Other operations increased $279 million including a favorable impact of $25 million from currency fluctuations. Excluding currency fluctuations, adjusted operating income increased $254 million. Results for 2011 benefitted from $224 million of earnings from the acquired Star and Edison Businesses, excluding the impact of estimated claims associated with the earthquake in Japan. Adjusted operating income for both 2011 and 2010 reflect the impact of partial sales of our investment, through a consortium, in China Pacific Group, which contributed a $237 million benefit to 2011 results compared to a $66 million benefit to 2010 results. These favorable items were partially offset by transaction and integration costs of $213 million in 2011 relating to the Star and Edison acquisition and $49 million of charges associated with claims and expenses arising from the March 2011 earthquake in Japan.

Excluding the effect of the items discussed above, adjusted operating income from our Gibraltar Life and Other operations increased $121 million reflecting business growth, including expanding sales of protection products, and improved investment results, including a greater contribution from our fixed annuity products reflecting growth of that business and lower amortization of deferred policy acquisition costs. Partially offsetting these favorable variances were higher development costs supporting bank and agency distribution channel growth and unfavorable results from our insurance joint venture in India.

Revenues, Benefits and Expenses

2012 to 2011 Annual Comparison. Revenues from our Life Planner operations, as shown in the table above under Operating Results, increased $800 million including a net unfavorable impact of $2 million from currency fluctuations. Excluding currency fluctuations, revenues increased $802 million primarily reflecting increases in premiums and policy charges and fee income of $616 million driven by growth of business in force and continued strong persistency in our Japanese Life Planner operation. Net investment income increased $158 million reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

Benefits and expenses from our Life Planner operations, as shown in the table above under Operating Results, increased $565 million including a net favorable impact of $56 million from currency fluctuations. Excluding currency fluctuations, benefits and expenses increased $621 million. Benefits and expenses of our

Table of Contents

Japanese Life Planner operation increased $513 million, primarily reflecting an increase in policyholder benefits due to changes in reserves driven by the growth in business in force, partially offset by the absence of charges recognized in the prior year period associated with claims from the 2011 earthquake in Japan. Additionally, 2012 includes a $20 million benefit from a reduction in the amortization of deferred policy acquisition costs and lower reserves, reflecting the impact of our annual review and update of assumptions used in estimating the profitability of the business.

Revenues from our Gibraltar Life and Other operations increased $9,219 million, including a net favorable impact of $159 million from currency fluctuations. Excluding currency fluctuations, revenues increased $9,060 million. This increase is driven by an $8,884 million increase in premiums and policy charges and fee income reflecting growth in the bank distribution channel, including $7,619 million of higher premiums from sales of yen-denominated single premium reduced death benefit whole life policies, as well as higher premiums of $1,074 million in the Life Consultant distribution channel driven by increased sales of cancer whole life and U.S. dollar-denominated retirement income products. Also contributing to the increase in revenues is higher net investment income of $353 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates. Asset management fees and other income declined driven by the comparative impact of partial sales of our indirect investment in China Pacific Group, as discussed above, resulting in a $60 million gain in 2012 compared to a $237 million gain in 2011, partially offset by the distribution received in 2012 from the Japan Financial Stability Fund.

Benefits and expenses of our Gibraltar Life and Other operations increased $9,013 million, including an unfavorable impact of $108 million from currency fluctuations. Excluding currency fluctuations, benefits and expenses increased $8,905 million. Policyholder benefits, including changes in reserves, increased $8,461 million primarily driven by higher sales of yen-denominated single premium reduced death benefit whole life, cancer whole life and U.S. dollar-denominated retirement income products in 2012, partially offset by the absence of charges recognized in the prior year associated with claims from the 2011 earthquake in Japan. General and administrative expenses, net of capitalization, and DAC amortization increased primarily due to increased costs supporting business growth and charges associated with our life insurance joint venture in India, partially offset by additional synergies and lower integration costs associated with the Star and Edison acquisition.

2011 to 2010 Annual Comparison. Revenues from our Life Planner operations increased $950 million including a net favorable impact of $398 million from currency fluctuations. Excluding currency fluctuations, revenues increased $552 million primarily reflecting higher premiums and policy charges and fee income of $392 million driven by a $341 million increase from our Japanese Life Planner operation reflecting growth of business in force and continued strong persistency. Net investment income increased $118 million primarily due to investment portfolio growth, partially offset by lower yields in our investment portfolio.

Benefits and expenses of our Life Planner operations increased $853 million including a net unfavorable impact of $387 million from currency fluctuations. Excluding currency fluctuations, benefits and expenses increased $466 million primarily reflecting $396 million of higher benefits and expenses in our Japanese Life Planner operation which was primarily driven by higher policyholder benefits due to changes in reserves reflecting growth in business in force and to a lesser extent, the impact of the charges associated with claims resulting from the Japanese earthquake and less favorable mortality experience.

Revenues from our Gibraltar Life and Other operations increased $6,546 million including a favorable impact of $331 million from currency fluctuations. Excluding currency fluctuations, revenues increased $6,215 million. Premiums and policy charges and fee income increased $4,933 million, of which $2,920 million was associated with the acquired Star and Edison Businesses. Excluding Star and Edison, the increase in premiums and policy charges and fee income was primarily driven by growth within the bank distribution channel including $1,062 million higher sales of single premium reduced death benefit whole life policies. Net investment income increased $1,028 million primarily reflecting income on the acquired assets from Star and Edison and to a lesser extent, continued growth of our fixed annuity products. Also contributing to the increase in revenues is higher other income, primarily reflecting the impact of the partial sales of our indirect investment in China Pacific Group as discussed above.

113

Benefits and expenses of our Gibraltar Life and Other operations increased $6,267 million, including an unfavorable impact of $306 million from currency fluctuations. Excluding currency fluctuations, benefits and expenses increased $5,961 million. Policyholder benefits, including changes in reserves, increased $3,866 million and was primarily driven by the acquisition of the Star and Edison Businesses, higher single premium reduced death benefit whole life sales in 2011 and $37 million of charges associated with claims resulting from the March 2011 earthquake in Japan. General and administrative expenses, net of capitalization, increased $1,350 million primarily driven by the impact of the Star and Edison acquisition including $213 million of transaction and integration costs related to the acquisition, higher development costs supporting bank and agency distribution channel growth and $12 million of expenses resulting from the earthquake in Japan. Also contributing to the increase in benefits and expenses is higher amortization of deferred policy acquisition costs and interest credited to policyholders account balances primarily reflecting the impact of the Star and Edison acquisition.

Sales Results

The following table sets forth annualized new business premiums on an actual and constant exchange rate basis for the periods indicated.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$ 1,354	$ 1,150	$ 964
Gibraltar Life	2,724	2,042	874
Total	$ 4,078	$ 3,192	$ 1,838
On a constant exchange rate basis:			
Life Planner operations	$ 1,347	$ 1,126	$ 1,001
Gibraltar Life	2,704	2,031	928
Total	$ 4,051	$ 3,157	$ 1,929

Historically, growth in annualized new business premiums was closely correlated to growth of our Life Planner and Gibraltar Life Consultant distribution force. Recently, growth in annualized new business premiums is being driven by increased average premium per new policy resulting in part from the growing demand for retirement-oriented products, as well as expanded distribution through third party channels, especially banks. As noted in the table below, bank channel sales contain a disproportionate number of single pay or limited pay contracts which tend to be larger policies and therefore have higher average premiums per policy.

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

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

	Year Ended December 31, 2012					Year Ended December 31, 2011				
	Life	Accident & Health(1)	Retirement (2)	Annuity	Total	Life	Accident & Health(1)	Retirement (2)	Annuity	Total
	(in millions)									
Life Planners	$ 492	$ 195	$ 588	$ 72	$ 1,347	$ 437	$ 183	$ 454	$ 52	$ 1,126
Gibraltar Life:										
Life Consultants	446	155	179	142	922	434	206	127	205	972
Banks(3)	1,253	37	13	119	1,422	382	46	23	149	600
Independent Agency	79	202	50	29	360	179	189	18	73	459
Subtotal	1,778	394	242	290	2,704	995	441	168	427	2,031
Total	$ 2,270	$ 589	$ 830	$ 362	$ 4,051	$ 1,432	$ 624	$ 622	$ 479	$ 3,157

(1) Includes medical insurance, cancer insurance and accident & sickness riders. The years ended December 31, 2012 and 2011 include $325 million and $230 million, respectively, of annualized new business premiums from cancer whole life insurance products.
(2) Includes retirement income, endowment and savings variable universal life.
(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 74% and 19%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2012, and 31% and 50%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2011. Single pay and limited pay products generally have less death benefit protection per premium paid than more traditional recurring premium products.

2012 to 2011 Annual Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $221 million driven by higher sales in Japan of $177 million reflecting increased demand for U.S. dollar-denominated retirement income products driven by a change in crediting rate that became effective in June 2012 and higher demand for yen-denominated retirement income products in the corporate market. To a lesser extent, sales in Brazil, Korea, Taiwan and Italy increased due to growth and the introduction of new products into these markets.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased $673 million driven by increased sales of $822 million in the bank channel distribution. Bank channel sales largely reflect higher sales of yen-denominated single premium reduced death benefit whole life policies in anticipation of pricing changes effective January 2013 as well as the benefit from actions taken by certain of our competitors to limit sales and lower crediting rates on similar products. Independent Agency and Life Consultant sales declined $99 million and $50 million, respectively, driven by the discontinuation of certain products previously offered by the former Star and Edison businesses and the expected attrition of former Star and Edison Life Consultants. These decreases were partly offset by higher sales of cancer whole life products prior to a tax law change in April 2012 as well as increased demand for U.S. dollar-denominated retirement income products prior to pricing changes in April 2012.

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

	Year Ended December 31, 2011					Year Ended December 31, 2010				
	Life	Accident & Health(1)	Retirement (2)	Annuity	Total	Life	Accident & Health(1)	Retirement (2)	Annuity	Total
					(in millions)					
Life Planners	$ 437	$ 183	$ 454	$ 52	$ 1,126	$ 430	$ 171	$ 366	$ 34	$ 1,001
Gibraltar Life:										
Life Consultants	434	206	127	205	972	280	74	67	108	529
Banks(3)	382	46	23	149	600	186	45	35	75	341
Independent Agency	179	189	18	73	459	4	51	2	1	58
Subtotal	995	441	168	427	2,031	470	170	104	184	928
Total	$ 1,432	$ 624	$ 622	$ 479	$ 3,157	$ 900	$ 341	$ 470	$ 218	$ 1,929

(1) Includes medical insurance, cancer insurance and accident & sickness riders.
(2) Includes retirement income, endowment and savings variable universal life.
(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 30% and 50%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2011, and 1% and 64%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2010. Single pay and limited pay products generally have less death

benefit protection per premium paid than more traditional recurring premium products.

2011 to 2010 Annual Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $125 million, including $84 million of higher sales in Japan driven by growth in average premium per policy reflecting the increasing demand for both yen and U.S. dollar-denominated retirement income products. Sales in Korea increased $21 million driven by growth in

Table of Contents

average premium per policy resulting from increased sales of retirement income products and variable annuity products. In Brazil, sales increased $11 million primarily driven by sales of whole life products due in part to an increase in the number of Life Planners.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased $1,103 million, with Star and Edison contributing $763 million to this increase. Annualized new business premiums for Star include approximately $128 million of sales from an increasing term product that was discontinued upon completion of the merger with Gibraltar. Excluding Star and Edison, the increase in annualized new business premiums was driven by higher bank channel sales of $233 million primarily due to increased sales of protection products including $137 million from single premium reduced death benefit whole life sales due in part to increased sales in advance of a premium increase on our yen-denominated product effective early February 2011 and $55 million in whole life products. Excluding Star and Edison, independent agency distribution sales increased $86 million with the vast majority from sales of cancer insurance products and Life Consultant sales increased $21 million primarily reflecting higher sales of retirement income and annuity products.

Salesforce

The following table sets forth the number of Life Planners and Life Consultants for the periods indicated.

	As of December 31,		
	2012	2011	2010
Life Planners:			
Japan	3,216	3,137	3,122
All other countries	3,842	3,655	3,443
Gibraltar Life Consultants	11,333	12,791	6,281
Total	18,391	19,583	12,846

2012 to 2011 Comparison. The number of Life Planners increased by 266 from December 31, 2011 driven by increases of 96 and 79 in Korea and Japan, respectively, reflecting recruitment and retention initiatives and 69 in Brazil due to agency growth. Also contributing to the increase in Life Planners over the past year were increases of 61 in Poland and 22 in Italy, partly offset by declines of 37 in Taiwan and 26 in Mexico.

The number of Gibraltar Life Consultants decreased by 1,458 from December 31, 2011, including anticipated resignations and terminations of Life Consultants, due in part to their failure to meet minimum sales production standards.

2011 to 2010 Comparison. The number of Life Planners increased by 227 from December 31, 2010 driven by an increase of 84 in Brazil due to stronger recruitment, as well as increases of 62 in Korea, 32 in Poland, 31 in Italy and 15 in Japan. Over this twelve month period, there were 35 Japanese Life Planners transferred to Gibraltar Life, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders.

The number of Gibraltar Life Consultants increased by 6,510 from December 31, 2010 driven by the Star and Edison acquisition. As of December 31, 2011, 6,550 Life Consultants were associated with the former acquired businesses of Star and Edison, reflecting a decrease of 719 from the 7,269 Life Consultants as of the February 1, 2011 date of acquisition, as recruitments were more than offset by terminations and resignations.

Table of Contents

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and divested businesses except those that qualify for discontinued operations accounting treatment under U.S. GAAP.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Operating results:			
Capital debt interest expense	$ (699)	$ (621)	$ (554)
Net investment income, net of interest expense, excluding capital debt interest expense	(53)	(26)	(63)
Pension income and employee benefits	162	210	215
Other corporate activities(1)	(745)	(673)	(534)
Adjusted operating income	(1,335)	(1,110)	(936)
Realized investment gains (losses), net, and related adjustments	469	(1,487)	119
Related charges	(24)	59	(3)
Divested businesses	(597)	101	18
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(11)	(10)	(28)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (1,498)	$ (2,447)	$ (830)

(1) Includes consolidating adjustments.

In December 2012, the Company adopted retrospectively a change in method of applying an accounting principle for the Company s pension plans. The change in accounting method relates to the calculation of market related value of pension plan assets, used to determine net periodic pension cost. As a result of this change, Corporate and Other results have been revised for all historical periods presented. For additional information on the change in accounting method for the Company s pension plans, see Notes 2 and 18 to our Consolidated Financial Statements.

2012 to 2011 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $225 million. Capital debt interest expense increased $78 million primarily due to higher levels of capital debt. Net investment income, net of interest expense, excluding capital debt interest expense, decreased $27 million reflecting less favorable results from equity method investments and higher levels of operating debt. Net charges from other corporate activities for 2012 include a $78 million charge from the impact of an annual review and update of assumptions on the reserves for certain retained obligations relating to pre-demutualization policyholders to whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation. In addition, retained corporate expenses increased in 2012 primarily from an increase in corporate advertising, the results of our corporate foreign exchange hedging activities and the costs related to the prepayment of outstanding debt. These increases are partially offset by a favorable comparative impact for our estimate of payments arising from the use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders and the absence of a $20 million expense accrued in 2011 related to a voluntary contribution to be made to the insurance industry insolvency fund, related to Executive Life Insurance.

Results from Corporate and Other operations pension income and employee benefits decreased $48 million primarily due to an increase in recorded liabilities for certain employee benefits and higher postretirement costs. Income from our qualified pension plan partially offset these unfavorable items reflecting better than expected growth in plan assets partially offset by a decrease in the expected rate of return on plan assets from 7.00% in 2011 to 6.75% in 2012.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2013, we will decrease the discount rate to 4.05% from 4.85% in 2012. The expected rate of return on plan assets will decrease to 6.25% in 2013 from 6.75% in 2012, and the assumed rate of increase in compensation will remain unchanged at 4.5%. We determined our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. Giving effect to the foregoing assumptions and other factors, we expect, on a consolidated basis, income from our own qualified pension plan will continue to contribute to adjusted operating income in 2013, but at a level of about $15 million to $25 million lower than in 2012. Other postretirement benefit expenses will decrease in a range of $5 million to $15 million. The decrease is driven primarily by favorable demographic updates and claims experience, offset by a decrease in the discount rate to 3.85% from 4.60%. In 2013, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments.

2011 to 2010 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $174 million. Corporate and Other operations recorded a $93 million increase in reserves for estimated payments arising from use of new Social Security Master Death file criteria to identify deceased policy and contract holders. Corporate and Other operations also recorded a $20 million charge related to a voluntary contribution to be made to an insurance industry insolvency fund, related to Executive Life Insurance Company of New York. Greater net charges from other corporate activities, primarily reflecting increased retained corporate expenses, including corporate advertising, contributed to the increased loss. The increase in net charges from other corporate activities was partially offset by more favorable results from corporate foreign currency hedging activities and reduced charges compared to the prior period for certain retained obligations relating to pre-demutualization policyholders to whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation. Capital debt interest expense increased $67 million due to a greater level of capital debt, which includes the issuance in November 2010 of $1 billion of debt for the acquisition of the Star and Edison Businesses. Investment income, net of interest expense, excluding capital debt interest expense, increased $37 million due to higher income in our corporate investment portfolio including higher income on equity method investments.

Results from Corporate and Other operations pension income and employee benefits decreased $5 million primarily due to a decrease in income from our qualified pension plan resulting from a decrease in the expected rate of return on plan assets from 7.50% in 2010 to 7.00% in 2011, partially offset by better than expected growth in plan assets.

Capital Protection Framework

Corporate and Other operations includes the results of our Capital Protection Framework, which includes, among other initiatives, the capital hedge program. The capital hedge program broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, as described under Liquidity and Capital Resources Capital Capital Protection Framework. This hedge program resulted in charges for amortization of derivative costs of $40 million, $21 million and $8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The impact of the market value changes of these derivatives included in Realized investment gains (losses), net and related adjustments was a loss of $15 million, a gain of $9 million and a loss of $7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to hedging equity market exposure, we may choose to manage the interest rate risk associated with various operations of the Financial Services Businesses by holding capital against a portion of the interest rate exposure rather than fully hedging the risk. Realized investment gains (losses), net and related adjustments includes net gains of $184 million, net losses of $1,662 million and net gains of $306 million for the years ended December 31, 2012, 2011 and 2010 respectively, resulting from our decision to utilize this strategy to manage a portion of our interest rate risk. The $1,662 million net loss in 2011 was driven by significant declines in risk-free interest rates during the year. The capital consequences associated with our decision to hold capital against a portion of our interest rate exposure have been factored into our Capital Protection Framework.

In addition, we manage certain of the risks associated with our variable annuity products through our living benefit hedging program, which is described under U.S. Retirement Solutions and Investment Management Division Individual Annuities. Through our Capital Protection

Framework, we maintain access to on-balance sheet capital and contingent sources of capital that are available to meet capital needs that may arise related to this hedging program.

For more information on our Capital Protection Framework, see Liquidity and Capital Resources.

Table of Contents

Results of Operations of Closed Block Business

We established the Closed Block Business effective as of the date of demutualization. The Closed Block Business includes our in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity and related liabilities that support these policies. We no longer offer these traditional domestic participating policies. See Note 12 to the Consolidated Financial Statements and Closed Block Business for additional details.

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

As of December 31, 2012, the excess of actual cumulative earnings over the expected cumulative earnings was $885 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $5,478 million at December 31, 2012, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI.

Operating Results

Management does not consider adjusted operating income to assess the operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with U.S. GAAP. The following table sets forth the Closed Block Business U.S. GAAP results for the periods indicated.

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
U.S. GAAP results:			
Revenues	$ 6,257	$ 7,015	$ 7,086
Benefits and expenses	6,193	6,801	6,340
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 64	$ 214	$ 746

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

2012 to 2011 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $150 million. Results for 2012 include $602 million of lower net realized investment gains, primarily due to lower trading gains on fixed maturities and equity investments, as well as unfavorable changes in the value of derivatives. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses. Also contributing to the decline in results was a $61 million decrease in net investment income primarily reflecting the impact of lower

Table of Contents

reinvestment rates and lower asset balances as the business runs off. As a result of the above and other variances, a $123 million policyholder dividend obligation expense was recorded in 2012, compared to $636 million in 2011. As noted above, as of December 31, 2012, the excess of actual cumulative earnings over the expected cumulative earnings was $885 million. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block Business, which is primarily due to changes in investment results, may not be offset by changes in the cumulative policyholder dividend obligation.

2011 to 2010 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $532 million. Results for 2011 include a $40 million increase in reserves for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders, as well as a decrease in net investment income of $33 million primarily due to lower portfolio yields. These unfavorable items were partially offset by an increase of $51 million in net realized investment gains primarily resulting from higher trading gains as part of a change in asset allocation of the portfolios and lower impairment losses, partially offset by lower investment gains from the change in value of derivatives, including interest rate swaps and futures. As a result of the above and other variances, a $636 million policyholder dividend obligation expense was recorded in 2011, compared to $126 million in 2010.

Revenues, Benefits and Expenses

2012 to 2011 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $758 million principally driven by the $602 million decrease in net realized investment gains, as discussed above. Premiums declined by $101 million, with a related decrease in changes in reserves, primarily due to the expected in force decline as policies terminate. Also contributing to the decline in revenues was a $61 million decrease in net investment income, as discussed above.

Benefits and expenses, as shown in the table above under Operating Results, decreased $608 million primarily driven by a $550 million decline in dividends to policyholders including a $513 million decrease in the policyholder dividend obligation expense reflecting a lower increase in cumulative earnings. In addition, policyholders benefits, including changes in reserves, decreased $37 million primarily due to the expected in force decline as policies terminate, partially offset by an increase in reserves for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders.

2011 to 2010 Annual Comparison. Revenues decreased $71 million principally driven by an $89 million decrease in premiums, with a related decrease in changes in reserves, primarily due to the expected in force decline as policies terminate, as well as a $33 million decrease in net investment income primarily due to lower portfolio yields, as discussed above. Partially offsetting these unfavorable items was an increase of $51 million in net realized investment gains, as discussed above.

Benefits and expenses increased $461 million primarily driven by a $500 million increase in dividends to policyholders including a $510 million increase in the policyholder dividend obligation expense reflecting an increase in cumulative earnings. This unfavorable item was partially offset by a decrease in policyholders benefits, including changes in reserves of $30 million reflecting the expected in force decline, partially offset by an increase in reserves for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders, as discussed above.

Table of Contents

Income Taxes

Shown below is our income tax provision for the years ended December 31, 2012, 2011 and 2010, separately reflecting the impact of certain significant items. Also presented below is the income tax provision that would have resulted from application of the statutory 35% federal income tax rate in each of these periods.

	Year ended December 31, 2012	2011 (in millions)	2010
Tax provision	$ 204	$ 1,488	$ 1,243
Impact of:			
Reversal of acquisition opening balance sheet deferred tax items	(384)	(221)	(6)
Non-taxable investment income	302	247	214
Low income housing and other tax credits	78	80	58
Foreign taxes at other than U.S. rate	41	30	46
Minority interest	27	24	4
State and local taxes	(16)	2	(4)
Uncertain tax positions and interest	(8)	57	(9)
Non-deductible expenses	(7)	(17)	(10)
Change in tax rate	(1)	(18)	(91)
Repatriation assumption change	(6)	11	0
Change in valuation allowance	1	(8)	(29)
Other	6	43	33
Tax provision excluding these items	$ 237	$ 1,718	$ 1,449
Tax provision at statutory rate	$ 237	$ 1,718	$ 1,449

Our income tax provision amounted to an income tax expense of $204 million in 2012 compared to $1,488 million in 2011. Our income tax provision for 2012 and 2011 includes $333 million and $214 million, respectively, of an additional U.S. tax related to the realization of a portion of the local deferred tax assets existing on the opening day balance sheet for the Star and Edison Businesses. The increase in the additional U.S. tax is a result of the merger of Star and Edison Businesses into the Gibraltar Life Insurance Company, Ltd. It represents the recomputed U.S. tax liability on Gibraltar s prior earnings as a result of the repatriation assumption and the merger of the entities. The local utilization of the deferred tax asset coupled with the repatriation assumption with respect to the applicable earnings of our Japanese entities creates the effect of a double tax for U.S. GAAP purposes, whereas only one incidence of tax will ever be paid. In addition, 2011 income tax expense includes a $42 million tax benefit from the release of a valuation allowance related to a foreign subsidiary. Excluding the impact of the double tax and the release of the valuation allowance, the income tax expense decreased primarily due to the decrease in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures and increase in non-taxable investment income for the year ended December 31, 2012.

Our income tax provision related to foreign operations amounted to an income tax benefit of $90 million in 2012 compared to income tax expense of $644 million in 2011. Our foreign operations income tax provision for 2012 and 2011 includes $73 million of an additional tax expense and $435 million of an additional tax benefit, respectively, from the re-measurement of deferred tax liabilities resulting from the Japan corporate income tax rate reduction. However, since we assume repatriation of earnings from our Japanese operations, our domestic tax provision in 2012 and 2011 includes $73 million of an additional tax benefit and $435 million of an additional tax expense, respectively, resulting from the increase or decrease in the future foreign tax credit benefit and, as a result, the reduction in the Japan corporate tax rate had no impact on our overall income tax provision. Excluding the impact from the Japan corporate income tax rate reduction, the foreign operations income tax provision decreased primarily due to the decrease in foreign operations pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures.

We employ various tax strategies, including strategies to minimize the amount of taxes resulting from realized capital gains.

For additional information regarding income taxes, see Note 19 to the Consolidated Financial Statements.

Table of Contents

Discontinued Operations

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. Income (loss) from discontinued operations, net of taxes, was $15 million, $35 million and $33 million for the years ended December 31, 2012, 2011 and 2010, respectively.

For additional information regarding discontinued operations see Note 3 to the Consolidated Financial Statements.

Divested Businesses

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

	Year ended December 31,		
	2012	2011	2010
		(in millions)	
Long-Term Care	$ (608)	$ 47	$ 43
Real Estate and Relocation Services	26	81	47
Property and Casualty Insurance	(10)	(8)	(33)
Individual Health Insurance	(6)	(15)	(17)
Financial Advisory	(5)	(7)	(19)
Other	6	3	(3)
Total divested businesses excluded from adjusted operating income	$ (597)	$ 101	$ 18

Long-Term Care. Results for the year ended December 31, 2012, as presented in the table above, include a $639 million net charge, before taxes, from an increase in reserves for our long-term care products and adjustments to deferred policy acquisition and other costs, reflecting updates to the estimated profitability of the business, driven by changes to our long-term interest rate and morbidity assumptions, partially offset by expected future premium increases. We have factored into our assumptions our best estimate of the timing and amount of anticipated and yet-to-be-filed premium increases which will require state approval. Our actual experience obtaining pricing increases could be materially different than what we have assumed, resulting in further policy liability increases which could be material.

Real Estate and Relocation Services. Results for the year ended December 31, 2011 include a pre-tax gain of $49 million reflecting the sale of our real estate brokerage franchise and relocation services business. We retained ownership of a financing subsidiary with debt and equity investments in a limited number of real estate brokerage franchises. The results of these operations are reflected in the table above. For additional information on the sale of our real estate brokerage franchise and relocation services business, see Note 3 to the Consolidated Financial Statements.

Experience-Rated Contractholder Liabilities,

Trading Account Assets Supporting Insurance Liabilities and Other Related Investments

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

122

Table of Contents

investments is reported in "Net investment income." To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives that support these experience-rated products are reflected on the statement of financial position as "Other long-term investments" and are carried at fair value, and the realized and unrealized gains and losses are reported in "Realized investment gains (losses), net." The commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the statements of financial position as "Commercial mortgage and other loans." Gains and losses on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in "Realized investment gains (losses), net."

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

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

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

Table of Contents

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

	Year ended December 31, 2012	2011 (in millions)	2010
Retirement Segment:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$ 406	$ 383	$ 468
Derivatives	(86)	(160)	50
Commercial mortgages and other loans	5	9	6
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(336)	(283)	(598)
Net gains (losses)	$ (11)	$ (51)	$ (74)
International Insurance Segment:			
Investment gains (losses) on trading account assets supporting insurance liabilities, net	$ 204	$ (160)	$ 33
Change in experience-rated contractholder liabilities due to asset value changes	(204)	160	(33)
Net gains (losses)	$ 0	$ 0	$ 0
Total:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$ 610	$ 223	$ 501
Derivatives	(86)	(160)	50
Commercial mortgages and other loans	5	9	6
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(540)	(123)	(631)
Net gains (losses)	$ (11)	$ (51)	$ (74)

(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $3 million, $7 million and $9 million as of December 31, 2012, 2011 and 2010, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of $18 million, $55 million and $108 million for the years ended December 31, 2012, 2011 and 2010, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

As shown in the table above, the net impacts for the Retirement segment of changes in experience-rated contractholder liabilities and investment gains and losses on trading account assets supporting insurance liabilities and other related investments were net losses of $11 million, $51 million and $74 million for the years ended December 31, 2012, 2011 and 2010, respectively. These impacts primarily reflect timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. These impacts also reflect the difference between the fair value of the underlying commercial mortgage and other loans and the amortized cost, less any valuation allowance, of these loans, as described above.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one or more significant unobservable input in the measurement. See Note 20 to the Consolidated Financial Statements for an additional description of the valuation hierarchy levels.

Table of Contents

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, split between the Financial Services Businesses and Closed Block Business, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. See Note 20 to the Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

	As of December 31, 2012				As of December 31, 2011			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)
	(in millions)							
Fixed maturities, available-for-sale	$ 254,917	$ 4,261	$ 46,419	$ 1,207	$ 208,132	$ 3,098	$ 46,516	$ 1,132
Trading account assets:								
Fixed maturities	20,605	565	139	10	18,921	612	189	0
Equity securities	2,341	987	136	111	2,404	1,173	128	123
All other(2)	3,697	25	0	0	3,384	93	0	0
Subtotal	26,643	1,577	275	121	24,709	1,878	317	123
Equity securities, available-for-sale	5,052	321	3,225	9	4,413	333	3,122	27
Commercial mortgage and other loans	162	48	0	0	600	86	0	0
Other long-term investments	1,478	1,053	(95)	0	1,107	1,110	185	0
Short-term investments	5,130	0	1,260	0	8,232	0	528	0
Cash equivalents	13,063	0	537	0	8,392	0	1,037	0
Other assets	98	8	97	0	(13)	9	111	0
Subtotal excluding separate account assets	306,543	7,268	51,718	1,337	255,572	6,514	51,816	1,282
Separate account assets	253,254	21,132	0	0	218,380	19,358	0	0
Total assets	$ 559,797	$ 28,400	$ 51,718	$ 1,337	$ 473,952	$ 25,872	$ 51,816	$ 1,282
Future policy benefits	$ 3,348	$ 3,348	$ 0	$ 0	$ 2,886	$ 2,886	$ 0	$ 0
Other liabilities and notes of consolidated VIEs(2)	1,496	1,406	0	0	444	285	0	0
Total liabilities	$ 4,844	$ 4,754	$ 0	$ 0	$ 3,330	$ 3,171	$ 0	$ 0

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5.1% and 5.5% as of December 31, 2012 and 2011, respectively, for the Financial Services Businesses, and 2.6% and 2.5% as of December 31, 2012 and 2011, respectively, for the Closed Block Business. The amount of Level 3 liabilities was immaterial to our balance sheet.

(2) All other and Other liabilities included within Other liabilities and notes of consolidated VIEs primarily include derivatives. The amounts classified as Level 3 for the Financial Services Businesses exclude the impact of netting.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The following sections provide information regarding certain assets and liabilities of our Financial Services Businesses and our Closed Block Business which are valued using Level 3 inputs and could have a significant impact on our results of operations.

Fixed Maturity and Equity Securities

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internally-developed valuation model uses significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities included approximately $4.5 billion as of December 31, 2012 and $3.2 billion as of December 31, 2011 of public fixed maturities, with values primarily based on indicative broker quotes, and approximately $1.5 billion as of December 31, 2012 and $1.6 billion as of December 31, 2011 of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit

Table of Contents

adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data.

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

Other Long-Term Investments

Other long-term investments classified in Level 3 primarily include real estate held in consolidated investment funds and fund investments where the fair value option has been elected. The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments are reflected within Level 3. Consolidated real estate investment funds classified as Level 3 totaled approximately $0.5 billion and $0.4 billion as of December 31, 2012 and 2011, respectively. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments are included within Level 3. Investments in these funds included in Level 3 totaled approximately $0.5 billion and $0.4 billion as of December 31, 2012 and 2011, respectively.

Derivative Instruments

Derivatives classified as Level 3, excluding embedded derivatives which are discussed in Variable Annuity Optional Living Benefit Features below, include look-back equity options and other structured products. These 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, and are valued based upon models with some significant unobservable market inputs or inputs from less actively traded markets. We validate these values through periodic comparison of our fair values to broker-dealer values. The fair values of OTC derivative assets and liabilities classified as Level 3 totaled approximately $19 million and $0 million, respectively, as of December 31, 2012 and $84 million and $3 million, respectively, as of December 31, 2011, without giving consideration to the impact of netting.

All realized and unrealized changes in fair value of these derivatives, with the exception of the effective portion of qualifying cash flow hedges and hedges of net investments in foreign operations, are recorded in current earnings. Generally, the changes in fair value of these derivatives, excluding those that qualify for hedge accounting, are recorded in Realized investment gains (losses), net. For additional information regarding the impact of changes in fair value of derivative instruments on our results of operations see Realized Investment Gains and Losses below.

Separate Account Assets

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

Variable Annuity Optional Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the optional living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in Realized investment gains (losses), net. The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, 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 calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 were net liabilities of $3.3 billion and $2.9 billion as of December 31, 2012 and 2011, respectively. For additional information see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

For additional information about the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements.

Realized Investment Gains and Losses

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

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

The level of other-than-temporary impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. We may also realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. For a discussion of our policies regarding other-than-temporary impairments see General Account Investments Fixed Maturity

Securities Other-Than-Temporary Impairments of Fixed Maturity Securities and General Account Investments Equity Securities Other-Than-Temporary Impairments of Equity Securities below.

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

Table of Contents

although we do not necessarily account for the related assets or liabilities the same way. Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income. For a further discussion of optional living benefit guarantees and related hedge positions in our Individual Annuities segment, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

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

The following tables set forth Realized investment gains (losses), net, by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 22 to the Consolidated Financial Statements.

	Year Ended December 31,		
	2012	**2011**	**2010**
		(in millions)	
Realized investment gains (losses), net:			
Financial Services Businesses	$ (1,684)	$ 1,986	$ 256
Closed Block Business	243	845	794
Consolidated realized investment gains (losses), net	$ (1,441)	$ 2,831	$ 1,050
Financial Services Businesses:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ (140)	$ (125)	$ (361)
Equity securities	(54)	(120)	11
Commercial mortgage and other loans	92	89	35
Derivative instruments	(1,552)	2,095	601
Other	(30)	47	(30)
Total	$ (1,684)	$ 1,986	$ 256
Related adjustments	(1,982)	517	(104)
Realized investment gains (losses), net, and related adjustments	(3,666)	2,503	152
Related charges	857	(1,656)	(179)
Realized investment gains (losses), net, and related charges and adjustments	$ (2,809)	$ 847	$ (27)
Closed Block Business:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ 103	$ 355	$ 117
Equity securities	78	265	174
Commercial mortgage and other loans	2	33	18
Derivative instruments	52	199	489
Other	8	(7)	(4)

Total	$ 243	$ 845	$ 794

2012 to 2011 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in 2012 were $1,684 million, compared to net realized investment gains of $1,986 million in 2011.

Table of Contents

Net realized losses on fixed maturity securities were $140 million in 2012, compared to net realized losses of $125 million in 2011, as set forth in the following table:

	Year Ended December 31, 2012	2011
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 375	$ 527
Private bond prepayment premiums	23	36
Total gross realized investment gains	398	563
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(263)	(431)
Gross losses on sales and maturities(1)	(247)	(250)
Credit related losses on sales	(28)	(7)
Total gross realized investment losses	(538)	(688)
Realized investment gains (losses), net Fixed Maturity Securities	$ (140)	$ (125)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 128	$ 277

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of $128 million in 2012 were primarily due to sales within our International Insurance, Retirement and Individual Annuities segments. Net trading gains on sales and maturities of fixed maturity securities of $277 million in 2011 were primarily due to sales within our Retirement and Individual Annuities segments. These gains also included $35 million of gross gains related to the sale of asset-backed securities collateralized by sub-prime mortgages. Sales of fixed maturity securities in our Individual Annuities segment in both years were primarily due to transfers of investments out of our general account and into separate accounts relating to an automatic rebalancing element embedded in the living benefit features of some of our variable annuity products. See below for information regarding the other-than-temporary impairments of fixed maturity securities in 2012 and 2011.

Net realized losses on equity securities were $54 million in 2012, including other-than-temporary impairments of $104 million, partially offset by net trading gains on sales of equity securities of $50 million, which were primarily due to sales within our Corporate and Other operations. Net realized losses on equity securities were $120 million in 2011, including other-than-temporary impairments of $94 million and net trading losses on sales of equity securities of $26 million. Net trading losses in 2011 were primarily due to public equity sales within our International Insurance operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2012 and 2011.

Net realized gains on commercial mortgage and other loans in 2012 were $92 million, primarily related to a net decrease in the loan loss reserves primarily driven by payoffs and quality rating upgrades. Net realized gains on commercial mortgage and other loans in 2011 were $89 million, primarily related to $32 million of mark-to-market gains on our interim loan portfolio, a net decrease of $30 million in the loan loss reserves primarily driven by quality rating upgrades, and $27 million of gains within our Asset Management business. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other

Loans Commercial Mortgage and Other Loan Quality.

Net realized losses on derivatives were $1,552 million in 2012, compared to net realized gains of $2,095 million in 2011. The net derivative losses in 2012 primarily reflect net losses of $1,829 million on product related embedded derivatives and related hedge positions primarily associated with certain variable annuity contracts. Also, contributing to the net derivative losses were net losses of $254 million on foreign currency forward contracts used to hedge portfolio assets in our Japan business primarily due to the weakening of the Japanese yen against the U.S. dollar, Australian dollar, euro, and British pound. Partially offsetting these losses were net gains of $121 million primarily representing risk fees earned on synthetic guaranteed investment contracts in our Retirement businesses which are accounted for as derivatives under U.S. GAAP, and net gains of $342 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, primarily in Japan due to the strengthening of the U.S. dollar against the Japanese yen. The net derivative gains in 2011 primarily reflect net gains of $1,375 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. Also, contributing to the net derivative gains were net mark-to-market gains of $498 million on interest rate derivatives used to manage duration as interest rates declined, and net gains of $214 million on foreign currency forward contracts used in our Japan business to hedge portfolio assets primarily due to the strengthening of the Japanese yen against the U.S. dollar and Australian dollar. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information regarding the product related embedded derivatives and related hedge positions associated with certain variable annuity contracts.

Net realized losses on other investments were $30 million in 2012, which included other-than-temporary impairments of $74 million on real estate and joint ventures and partnership investments, partially offset by a $41 million gain related to the sale of a real estate investment. Net realized gains on other investments were $47 million in 2011, which primarily included a $64 million gain on the partial sale of a real estate seed investment, partially offset by $33 million of other other-than-temporary impairments on real estate, joint ventures and partnership investments.

Related adjustments include that portion of Realized investment gains (losses), net that are included in adjusted operating income and that portion of Asset management fees and other income and Net investment income that are excluded from adjusted operating income. These adjustments are made to arrive at Realized investment gains (losses), net, and related adjustments which are excluded from adjusted operating income. Results for 2012 include net negative related adjustments of $1,982 million, compared to net positive related adjustments of $517 million for 2011. This unfavorable variance is primarily driven by the comparative impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, for which the foreign currency exposure is economically matched and offset in AOCI. For additional information, see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies.

Charges that relate to Realized investment gains (losses), net are also excluded from adjusted operating income. Results for 2012 include net positive related charges of $857 million, primarily driven by that portion of amortization of deferred policy acquisition and other costs relating to net losses on embedded derivatives and related hedge positions associated with certain variable annuity contracts. Results for 2011 include net negative related charges of $1,656 million, primarily driven by that portion of amortization of deferred policy acquisition and other costs relating to net gains on embedded derivatives and related hedge positions associated with certain variable annuity contracts. For additional information, see Note 22 to the Consolidated Financial Statements.

During 2012, we recorded other-than-temporary impairments of $441 million in earnings, compared to other-than-temporary impairments of $558 million recorded in earnings in 2011. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2012	2011
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 219	$ 314
Private fixed maturity securities	44	117
Total fixed maturity securities	263	431
Equity securities	104	94
Other invested assets(2)	74	33

Total	$ 441	$ 558

130

Table of Contents

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

	Year Ended December 31, 2012		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 54	$ 54	$ 108
Due to other accounting guidelines(3)	2	153	155
Total	$ 56	$ 207	$ 263

	Year Ended December 31, 2011		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 106	$ 117	$ 223
Due to other accounting guidelines(3)	12	196	208
Total	$ 118	$ 313	$ 431

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

During 2012, we recorded other-than-temporary impairments of $144 million in earnings related to securities with unrealized losses from foreign currency exchange rate movements that are approaching maturity. Fixed maturity other-than-temporary impairments in 2012 were concentrated in the consumer non-cyclical, technology, and utility sectors of our corporate securities, and to a lesser extent within asset-backed securities collateralized by sub-prime mortgages. These other-than-temporary impairments were primarily related to securities with unrealized losses from foreign currency exchange rate movements that are approaching maturity or related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Our Japanese insurance operations hold non-yen denominated investments which in some cases, due primarily to the strengthening of the yen against the U.S. dollar, as of year end are in an unrealized loss position. As the securities approach maturity and remain in an unrealized loss position, it becomes less likely that the exchange rates will recover and more likely that losses will be realized upon maturity. Accordingly, additional impairments will be recorded in earnings as they approach maturity. As of December 31, 2012, gross unrealized losses related to those securities maturing between January 1, 2013 and December 31, 2015 are $206 million. Absent a change in currency rates, impairments of approximately $45 million would be recorded in earnings in 2013 and approximately

$45 million in 2014 on these securities. Fixed maturity other-than-temporary impairments in 2011 were concentrated in the utility, finance, and consumer non-cyclical sectors of our corporate securities, asset-backed securities collateralized by sub-prime mortgages, and Japanese commercial mortgage-backed securities. These other-than-temporary impairments were primarily related to securities with unrealized foreign currency translation losses that are approaching maturity or related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Table of Contents

Equity security other-than-temporary impairments in 2012 and 2011 were primarily in our Japanese insurance operations where the securities decline in value has been maintained for one year or greater or where we intend to sell the security.

Other invested assets other-than-temporary impairments in 2012 and 2011 were mainly driven by a decline in value on certain real estate, joint ventures and partnership investments.

For a further discussion of our policies regarding other-than-temporary impairments see General Account Investments Fixed Maturity Securities Other-Than-Temporary Impairments of Fixed Maturity Securities and General Account Investments Equity Securities Other-Than-Temporary Impairments of Equity Securities below.

Closed Block Business

For the Closed Block Business, net realized investment gains in 2012 were $243 million, compared to net realized investment gains of $845 million in 2011.

Net realized gains on fixed maturity securities were $103 million in 2012, compared to net realized gains of $355 million in 2011, as set forth in the following table:

	Year Ended December 31, 2012	2011
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 243	$ 516
Private bond prepayment premiums	18	21
Total gross realized investment gains	261	537
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(74)	(104)
Gross losses on sales and maturities(1)	(56)	(75)
Credit related losses on sales	(28)	(3)
Total gross realized investment losses	(158)	(182)
Realized investment gains (losses), net Fixed Maturity Securities	$ 103	$ 355
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 187	$ 441

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities were $187 million in 2012 and $441 million in 2011, and both years included net realized losses on other-than-temporary impairments of $74 million in 2012 and $104 million in 2011 respectively. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2012 and 2011.

Net realized gains on equity securities were $78 million in 2012, which included net trading gains on sales of equity securities of $99 million, partially offset by other-than-temporary impairments of $21 million. Net realized gains on equity securities were $265 million in 2011, which included net trading gains on sales of equity securities of $283 million, partially offset by other-than-temporary impairments of $18 million. See below for additional information regarding the other-than-temporary impairments of equity securities in 2012 and 2011.

Net realized gains on commercial mortgage and other loans in 2012 were $2 million related to a net decrease in the loan loss reserve. Net realized gains on commercial mortgage and other loans in 2011 were $33 million, primarily related to a net decrease in the loan loss reserve of $42 million, partially offset by net realized losses on related foreclosures. For additional information regarding our loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized gains on derivatives were $52 million in 2012, compared to net realized gains of $199 million in 2011. Derivative gains in 2012 primarily reflect net gains of $80 million on interest rate derivatives primarily used to manage duration and net gains of $26 million on to be announced (TBA) forward contracts as interest rates declined, partially offset by net losses of $16 million on credit default swaps as credit spreads tightened and net losses of $42 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against the Euro and other currencies. The net derivative gains in 2011 primarily reflect net gains of $135 million on interest rate derivatives used to manage duration, and $53 million on TBA forward contracts as interest rates declined. Also, contributing to these gains are net derivative gains of $23 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against the Euro. Partially offsetting these gains were net derivative losses of $11 million on embedded derivatives associated with certain externally-managed investments in the European market.

During 2012, we recorded other-than-temporary impairments of $99 million in earnings, compared to other-than-temporary impairments of $127 million recorded in earnings in 2011. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2012	2011
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 56	$ 90
Private fixed maturity securities	18	14
Total fixed maturity securities	74	