PRUDENTIAL FINANCIAL INC
Form 10-K
February 24, 2012
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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, 2011

OR

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

COMMISSION FILE NUMBER 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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	New York Stock Exchange

(including Shareholder Protection Rights)

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. x

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, 2011, the aggregate market value of the registrant s Common Stock (par value $0.01) held by non-affiliates of the registrant was $30.91 billion and 486 million shares of the Common Stock were outstanding. As of January 31, 2012, 468 million shares of the registrant s Common Stock (par value $0.01) were outstanding. As of June 30, 2011, and January 31, 2012, 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 8, 2012, 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, 2011.

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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, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for retirement expense; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions, including risks associated with the acquisition of certain insurance operations in Japan; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; (26) Prudential Financial, Inc. s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (27) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in this Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

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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, before and after its demutualization on December 18, 2001. Prudential, the Company, we and our refer to our consolidated operations before and after demutualization.

PART I

ITEM 1. BUSINESS

Overview

Prudential Financial, Inc., a financial services leader with approximately $901 billion of assets under management as of December 31, 2011, 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, 2011, the general account investment portfolio totaled $278.5 billion for the Financial Services Businesses and $66.8 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 Realized Investment Gains and Losses and General Account Investments 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.

Demutualization and Separation of the Businesses

Demutualization

On December 18, 2001, our date of demutualization, 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.

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On the date of demutualization, Prudential Financial completed an initial public offering of its Common Stock, as well as the sale of shares of Class B Stock, a separate class of common stock, through a private placement. 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. A portion of the IHC debt was insured by a bond insurer. Concurrent with the demutualization, various subsidiaries of Prudential Insurance were reorganized, becoming direct or indirect subsidiaries of Prudential Financial.

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 for more information on the Closed Block. The Plan of Reorganization provided that Prudential Insurance may, with the prior consent of the New Jersey Commissioner of Banking and Insurance, 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 policies in the Closed Block are 90% reinsured, including 7% by a wholly-owned subsidiary of Prudential Financial. In 2011, we also reinsured 90% of the short-term risks associated with the Closed Block policies to a wholly-owned subsidiary of Prudential Financial. 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.

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. 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. 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. See Closed Block Business below for additional discussion of the Closed Block Business. 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:

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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.

The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock 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.

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, the principal amount of the IHC debt, related unamortized debt issuance costs and hedging activities, and a guaranteed investment contract; and

- within Prudential Financial, dividends received from Prudential Holdings, LLC, and reinvestment proceeds thereof, and other liabilities of Prudential Financial, in each case attributable to 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 the Closed Block by Prudential Insurance to provide additional capital with respect to the Closed Block Policies, as well as invested assets held outside 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. We refer to these additional assets and invested assets outside the Closed Block collectively as the Surplus and Related Assets. The interest maintenance reserve, recorded only under statutory accounting principles, captures realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses are amortized into statutory investment income over the expected remaining lives of the investments sold or impaired.

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. Also, on the date of demutualization, Prudential Holdings, LLC distributed $1.218 billion of the net proceeds of the IHC debt to Prudential Financial to use for general corporate purposes in the Financial Services Businesses. Prudential Holdings, LLC deposited $437 million of the net proceeds of the IHC debt in a debt service coverage account maintained in the Financial Services Businesses that, together with reinvested earnings thereon, constitutes a source of payment and security for the IHC debt. The remainder of the net proceeds, $72 million, was used to purchase a guaranteed investment contract to fund a portion of the bond insurance related to the IHC debt. To the extent we use the debt service coverage account to service payments with respect to the IHC debt or to pay dividends to Prudential Financial for purposes of the Closed Block Business, a loan from the Financial Services Businesses to the Closed Block

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Business would be established. Such an inter-business loan would be repaid by the Closed Block Business to the Financial Services Businesses when earnings from the Closed Block Business replenish funds in the debt service coverage account to a specified level. See Note 14 of the Consolidated Financial Statements for additional information on the IHC debt and the debt service coverage account.

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. It is expected that any inter-business loan referred to above will be repaid in full out of the Surplus and Related Assets, but not the Closed Block Assets. Any such loan will be subordinated to the IHC debt.

The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block Policies and, as discussed below, the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, we agreed to indemnify the investors in those securities with respect to certain matters, and any cost of that indemnification would be borne by the Financial Services Businesses.

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 with respect to inter-business transfers and accounting and tax matters, including the allocation of earnings. Such policies are summarized below. In the future, the Board of Directors may modify, rescind or add to any of these policies. However, the decision of the Board of Directors to modify, rescind or add to any of these policies is 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.

Inter-Business Transactions and Transfers

The transactions permitted between the Financial Services Businesses and the Closed Block Business, subject to any required regulatory approvals and the contractual limitations noted above, include the following:

- The Closed Block Business may lend to the Financial Services Businesses, and the Financial Services Businesses may lend to the Closed Block Business, in each case on terms no less favorable to the Closed Block Business than comparable internal loans and only for cash management purposes in the ordinary course of business and on market terms pursuant to our internal short-term cash management facility.

Other transactions between the Closed Block and businesses outside of the Closed Block, including the Financial Services Businesses, are permitted if, among other things, such transactions benefit the Closed Block, are at fair market value and do not exceed, in any calendar year, a specified formula amount.

Capital contributions to Prudential Insurance may be for the benefit of either the Financial Services Businesses or the Closed Block Business and assets of the Financial Services Businesses within Prudential Insurance may be transferred to the Closed Block Business within Prudential Insurance in the form of a loan which is subordinated to all existing obligations of the Closed Block Business and on market terms.

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An inter-business loan from the Financial Services Businesses to the Closed Block Business may be established to reflect usage of the net proceeds of the IHC debt initially deposited in the debt service coverage account, and any reinvested earnings thereon, to pay debt service on the IHC debt or dividends to Prudential Financial for purposes of the Closed Block Business.

In addition to the foregoing, the Financial Services Businesses may lend to the Closed Block Business, on either a subordinated or non-subordinated basis, on market terms as may be approved by Prudential Financial.

The Financial Services Businesses and the Closed Block Business may engage in such other transactions on market terms as may be approved by Prudential Financial and, if applicable, Prudential Insurance.

The Board of Directors has discretion to transfer assets of the Financial Services Businesses to the Closed Block, or use such assets for the benefit of Closed Block policyholders, if it believes such transfer or usage is in the best interests of the Financial Services Businesses, and such transfer or usage may be made without requiring any repayment of the amounts transferred or used or the payment of any other consideration from the Closed Block Business.

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.

Accounting Policies

Accounting policies relating to the allocation of assets, liabilities, revenues and expenses between the two Businesses include:

All assets, liabilities, equity and earnings are allocated between the two Businesses and accounted for as if the Businesses were separate legal entities. Assets and liabilities allocated to the Closed Block Business are those that we consider appropriate to operate that Business. All remaining assets and liabilities of Prudential Financial and its subsidiaries constitute the assets and liabilities of the Financial Services Businesses.

For financial reporting purposes, revenues; administrative, overhead and investment expenses; taxes other than federal income taxes; and certain commissions and commission-related expenses associated with the Closed Block Business are allocated between the Closed Block Business and the Financial Services Businesses in accordance with U.S. GAAP. Interest expense and routine maintenance and administrative costs generated by the IHC debt are considered directly attributable to the Closed Block Business and are therefore allocated to the Closed Block Business, except as indicated below.

Any transfers of funds between the Closed Block Business and the Financial Services Businesses will typically be accounted for as either reimbursement of expense, investment income, return of principal or a subordinated loan, except as described under Inter-Business Transactions and Transfers above.

The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block Policies and the consequences of certain potential adverse tax determinations noted below. In connection with the sale of the Class B Stock and IHC debt, we agreed to indemnify the investors with respect to certain matters, and any such indemnification would be borne by the Financial Services Businesses.

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Tax Allocation and Tax Treatment

The Closed Block Business within each legal entity is treated as if it were a consolidated subsidiary of Prudential Financial. Accordingly, if the Closed Block Business has taxable income, it recognizes its share of income tax as if it were a consolidated subsidiary of Prudential Financial. If the Closed Block Business has losses or credits, it recognizes a current income tax benefit.

If the Closed Block Business within any legal entity has taxable income, it pays its share of income tax in cash to the Financial Services Businesses. If it has losses or credits, it receives its benefit in cash from the Financial Services Businesses. If the losses or credits cannot be currently utilized in the consolidated federal income tax return of Prudential Financial for the year in which such losses or credits arise, the Closed Block Business will receive the full benefit in cash, and the Financial Services Businesses will subsequently recover the payment at the time the losses or credits are actually utilized in computing estimated payments or in the consolidated federal income tax return of Prudential Financial. Certain tax costs and benefits are determined under the Plan of Reorganization with respect to the Closed Block using statutory accounting rules that may give rise to tax costs or tax benefits prior to the time that those costs or benefits are actually realized for tax purposes. If at any time the Closed Block Business is allocated any such tax cost or a tax benefit under the Plan of Reorganization that is not realized at that same time under the relevant tax rules but will be realized in the future, the Closed Block Business will pay such tax cost or receive such tax benefit at that time, but it will be paid to or paid by the Financial Services Businesses. When such tax cost or tax benefit is subsequently realized under the relevant tax rules, the tax cost or tax benefit will be allocated to the Financial Services Businesses.

The foregoing principles are applied so as to prevent any item of income, deduction, gain, loss, credit, tax cost or tax benefit from being taken into account more than once by the Closed Block Business or the Financial Services Businesses. For this purpose, items determined under the Plan of Reorganization with respect to any period prior to the date of demutualization were taken into account, with any such pre-demutualization tax attributes relating to the Closed Block being attributed to the Closed Block Business and all other pre-demutualization tax attributes being attributed to the Financial Services Businesses. The Closed Block Business will also pay or receive its appropriate share of tax or interest resulting from adjustments attributable to the settlement of tax controversies or the filing of amended tax returns to the extent that the tax or interest relates to controversies or amended returns arising with respect to the Closed Block Business and attributable to tax periods after the date of demutualization, except to the extent that the tax is directly attributable to the characterization of the IHC debt for tax purposes, in which case the tax will be borne by the Financial Services Businesses. In particular, if a change of tax law after the date of demutualization, including any change in the interpretation of any tax law, results in the recharacterization of all or part of the IHC debt for tax purposes or a significant reduction in the income tax benefit associated with the interest expense on all or part of the IHC debt, the Financial Services Businesses will continue to pay the foregone income tax benefit to the Closed Block Business until the IHC debt has been repaid or Prudential Holdings, LLC has been released from its obligations to the bond insurer and under the IHC debt as if such recharacterization or reduction of actual benefit had not occurred.

Internal Short-Term Cash Management Facilities

The Financial Services Businesses and Closed Block Business participate in separate internal short-term cash management facilities, pursuant to which they invest cash from securities lending and repurchase activities as well as certain trading and operating activities. The net funds invested in the facilities are generally held in investments that are short-term, including mortgage- and asset-backed securities. Each Business holds discrete ownership of its investments in separate facilities without affecting or being affected by the level of participation of the other Business.

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.

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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. Our focus on innovative product design coupled with our risk management strategies, as discussed below, has contributed to growth in our business in recent years and a reduced risk profile. 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.

Competition

The Individual Annuities segment competes with other providers of retirement savings and accumulation products, including other large, well-established insurance and financial services companies. We compete in the individual annuities business primarily based on our ability to offer innovative product features. Our risk management strategy allows us to offer these features and helps to hedge or limit our exposure to certain of the related risks, utilizing a combination of product design elements, such as an automatic rebalancing element, also referred to as an asset transfer feature, and externally purchased hedging instruments. The automatic rebalancing element, included in the design of certain optional living benefits, transfers 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), according to a static mathematical formula as discussed in more detail below. By transferring assets to the more stable investment, the automatic rebalancing element helps to reduce our risk associated with the optional living benefit.

In recent years, we benefited from the impact of market disruptions on some of our competitors, certain of which either exited the variable annuity marketplace or implemented product modifications to increase pricing and scale back product features. However, in 2011 we implemented modifications to scale back benefits and increase pricing for certain product features, while certain of our competitors became more aggressive in product design and pricing. We believe our current product offerings remain competitively positioned and that our differentiated risk management strategies will continue to provide us with an attractive risk and profitability profile, as all currently-offered optional living benefit features include the automatic rebalancing element and most sales include a lifetime income withdrawal feature utilizing a notional amount based on a highest daily contract value plus a minimum return, credited for a period of time, as described below. Our automatic rebalancing element occurs at the contractholder level, rather than at the fund level, which we believe enhances our risk management capabilities. In addition to our product features, we also compete based on brand recognition, the breadth of our distribution platform and our customer service capabilities.

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). These guarantees may include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable

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during specified periods. Our latest optional living benefits guarantee, 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 highest daily guaranteed contract value is a notional amount 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 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 general account investments made in the fixed-rate accounts 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. Based on the contractual terms, the market value adjustment can be positive, resulting in an additional amount for the contractholder, or negative, resulting in a deduction from the contractholder s account value or redemption proceeds.

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, timing of annuitization and withdrawals, contract lapses and contractholder mortality. The rate of 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. As part of our risk management strategy, we hedge or limit our exposure to certain of these risks primarily through a combination of product design elements, such as the automatic rebalancing element, and externally purchased hedging instruments. Our returns can also vary by contract based on our risk management strategy, including the impact of any capital markets movements that we may hedge, the impact on that portion of our variable annuity contracts that benefit from the automatic rebalancing element, the impact of risks we have deemed suitable to retain and the impact of risks that are not able to be hedged.

As of December 31, 2011, 78% of total variable annuity account values contain a living benefit feature and 82% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design. The automatic rebalancing element included in the design of certain optional living benefits, transfers assets between certain variable investments selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond portfolio within the separate accounts. The automatic rebalancing element associated with currently-sold products transfers assets between certain variable investments selected by the annuity contractholder and a designated bond portfolio within the separate accounts. The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including the impact of investment performance on the contractholder s total account value. In general, negative investment performance may result in transfers to either a fixed-rate account in the general account or a bond portfolio within the separate accounts, and positive investment performance may result in transfers back to contractholder-selected variable investments. Overall, the automatic rebalancing element helps to mitigate our exposure to equity market risk and market volatility. Beginning in 2009, our offerings of optional living benefit features associated with currently-sold variable annuity products all include an automatic rebalancing element, and in 2009 we discontinued any new sales of optional living benefit features without an automatic rebalancing element. Other product design elements we utilize for certain products to manage these risks include asset allocation restrictions and minimum issuance age requirements. For information regarding the account values and net amount at risk associated with contracts which include the automatic rebalancing element, 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 Variable Annuity Net Amount at Risk.

As mentioned above, in addition to our automatic rebalancing element, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefit hedging program, we purchase interest rate swaps, swaptions, floors and caps as well as equity options and futures to hedge certain optional living benefit features accounted for as embedded derivatives against changes in certain capital market assumptions such as interest rates, equity markets and market volatility. Historically, our hedging

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strategy sought to generally match certain capital market sensitivities of the embedded derivative liability as defined by U.S. GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives and options. In the third quarter of 2010, we revised our hedging strategy as, in the low interest rate environment, we do not believe the U.S. GAAP value of the embedded derivative liability to be an appropriate measure for determining the hedge target. Our hedge target continues to be grounded in a U.S. GAAP/capital markets valuation framework but incorporates two modifications to the U.S. GAAP valuation assumptions. We add a credit spread to the U.S. GAAP risk-free rate of return assumption used to estimate future growth of bond investments in the customer separate account funds to account for the fact that the underlying customer separate account funds which support these living benefits are invested in assets that contain risk. We also adjust our volatility assumption to remove certain risk margins embedded in the valuation technique used to fair value the embedded derivative liability under U.S. GAAP, as we believe the increase in the liability driven by these margins is temporary and does not reflect the economic value of the liability. We also evaluate hedge levels versus our hedge target based on the overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our hedge target definition is reported within Corporate and Other operations. For information regarding the results of our hedging program, 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.

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges primarily consisted of equity-based total return swaps that were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of businesses, the results of the hedges under that program are reported within Corporate and Other operations. Additionally, as mentioned above, to the extent we decide to hedge to an amount that differs from our target hedge definition in our living benefit hedge program, those results also are reported through Corporate and Other operations. We continue to assess the composition of the hedging program on an ongoing basis. For information regarding the results of our capital hedge program, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment Corporate and Other.

Marketing and Distribution

Prudential Agents

Our Prudential Agents distribute variable annuities with proprietary and non-proprietary investment options, as well as fixed annuities. For additional information regarding our Prudential Agent force, see U.S. Individual Life and Group Insurance Division Individual Life.

Third Party Distribution

Our individual annuity products are also offered through a variety of third party channels, including independent brokers, wirehouses, banks, and Allstate s proprietary distribution force. Our distribution efforts are supported by a network of 317 internal and external wholesalers as of December 31, 2011.

Underwriting and Pricing

We earn asset management and other fees determined as a percentage of the average assets of the proprietary mutual funds in our variable annuity products, net of subadvisory expenses. Additionally, we earn mortality and expense fees and other fees for various insurance-related options and features, including optional

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guaranteed death and living benefit 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, including optional guaranteed death and living benefits, based on an evaluation of the risks assumed and considering applicable hedging costs. Our pricing is also influenced by competition, and by assumptions regarding policyholder behavior, including persistency, and benefit utilization and withdrawal rates 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 assumptions as to 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 discussed above, 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 and carry as liabilities actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for our in force annuity contracts, including the death benefit and living benefit guarantee features associated with some of these contracts. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, withdrawal rates 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 management s expectation of how a market participant would value these embedded derivative liabilities. For variable and fixed annuity contracts, we establish liabilities for policyholders 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. For participants leaving our clients plans, we provide a broad range of rollover products through our broker-dealer, Prudential Investment Management Services LLC, our bank, Prudential Bank & Trust, FSB (PB&T), and certain of our insurance companies. In 2012, PB&T intends to limit its operations to trust services. This will allow Prudential Financial to deregister as a savings and loan holding company prior to the effectiveness of the Volcker Rule provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 21, 2012. For more information on the Dodd-Frank Wall Street Reform and Consumer Protection Act, see Regulation Dodd-Frank Wall Street Reform and Consumer Protection Act.

Our institutional investment products business offers investment-only stable value products, guaranteed investment contracts, or GICs, funding agreements, institutional and retail notes, structured settlement annuities, and group annuities, for defined contribution plans, defined benefit plans, non-qualified plans, and individuals. Results of our institutional investment products business include proprietary spread lending activities where we borrow on a secured or unsecured basis to support investments on which we earn a spread between the asset yield and liability cost. We also offer products that provide pension risk transfer solutions, as pension plan sponsors seek to manage their exposure to risk. This is an emerging market that we recently entered and believe we are well-positioned to provide innovative solutions to pension plan sponsors.

In recent years we have completed two acquisitions which have increased our scale, expanded our sales and distribution capabilities and broadened our array of product and service offerings in our full service business.

Union Bank of California s Retirement Business

On December 31, 2007, we acquired a portion of the retirement business of Union Bank of California, N.A. for $103 million of cash consideration. This acquisition increased the scale of our product and service offerings and expanded our sales and distribution capabilities on the west coast of the U.S. The integration of this business was completed in 2008.

MullinTBG

On October 10, 2008, we acquired MullinTBG Insurance Agency Services, LLC and related entities, or MullinTBG, a provider of executive benefit solutions and financing strategies, including administration of non-qualified executive benefit plans. This acquisition broadened our array of product offerings, expanded our sales and distribution capabilities and enhanced our position as a single source servicer of both qualified and non-qualified retirement and deferred compensation plans.

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. 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 and may accelerate the trend toward unbundling of services. In recent years, there has been consolidation among industry providers seeking to increase scale, improve cost efficiencies, and enter new market segments. However, the market remains competitive with few dominant players. Despite the competitive landscape, we have seen case turnover slowing in our mid to large case target markets.

In our institutional investment products business, we compete primarily based on our pricing and structuring capabilities, which are supported by the financial strength ratings of our U.S. insurance companies. 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, market disruptions and rating agency downgrades have caused some of our competitors to withdraw from the institutional market. A continuing lack of supply to the stable value wrap market has created a significant growth opportunity, which has resulted in a material increase in this business activity.

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. Revenue is generated from asset-based fees, as well as recordkeeping and other advisory fees. For certain stable value products discussed below, profits result from the spread between the rate of return on investments we earn and the interest rates we credit, less expenses. In connection with non-qualified retirement and deferred compensation plans, we earn recordkeeping fees and commissions on products sold to finance the sponsor s plan liability. Prudential Financial s asset management units earn fees from managing assets supporting retirement products, including assets within the general account and those in separate accounts if selected by our clients as the asset manager.

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. The amount of profit we earn is impacted by the levels of interest rates, the pace and extent of changes in interest rates, competitor pricing and the minimum guaranteed crediting rates on these products.

We also offer fee-based separate account 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.

We also offer a broad range of rollover solutions, including individual retirement accounts, mutual funds, and guaranteed income products. Our rollover products and services are marketed to participants who terminate or retire from organizations that are clients of our retirement plan recordkeeping services. As noted above, in 2012, PB&T intends to limit its product offerings to trust services.

Institutional Investment Products

Our institutional investment products business primarily offers products to the stable value and payout annuity markets. In addition to the sources of earnings discussed below, Prudential Financial s asset management units earn fees from managing assets supporting retirement products, including assets within the general account and those in separate accounts if selected by our clients as the asset manager.

Stable Value Markets. Our stable value markets 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. The credited interest rates we offer and the volume of issuance are impacted by many factors, including the financial strength ratings of our U.S. insurance companies, overall market conditions, and other competitive factors. Due to current economic conditions, recent maturing contracts have outpaced new issuances.

Payout Annuity Markets. Our payout annuity markets area offers traditional general and separate account products designed to provide a predictable source of monthly income, generally for the life of the participant, such as structured settlements, voluntary income products and close-out 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. With our general account products, the obligation to make annuity payments to our annuitants is backed by our general account assets, and we bear all of the investment, mortality, retirement, asset/liability management, and expense risk associated with these contracts. Our profits from structured settlements, voluntary income products and close-out annuities 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. The volume of issuance of these products is impacted by many factors, including the financial strength ratings of our U.S. insurance companies.

We also provide both participating and non-participating separate account annuity contracts. Our participating separate account annuity 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 separate account annuity contracts provide pension benefit guarantees to defined benefit plan participants, and have economic features similar to our general account annuity contracts, discussed above, but offer the added protection of an insulated separate account.

We issue close-out annuities to defined benefit pension plans. In 2011, we expanded our pension risk transfer product offerings with the introduction of portfolio-protected products and a longevity reinsurance product. Our portfolio-protected products are non-participating separate account group annuity contracts in which we assume from plan sponsors 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 general account annuity contracts, discussed above, but 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 2011, we issued several close-out annuities, including portfolio-protected products, to smaller U.S. plans. We believe that larger U.S. pension plans are actively exploring risk transfer transactions, in part because of the increasingly stringent funding requirements imposed by the Pension Protection Act of 2006. If larger U.S. plans decide to purchase our pension risk transfer products, the size and scale of such risk transfers may significantly expand the size of our existing payout annuity business.

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. We market our rollover IRA products and services to plan participants through a centralized service team.

In our stable value markets area within our institutional investment products business, we distribute traditional GICs and investment-only stable value wraps to plan sponsors and stable value fund managers through our direct sales force and through intermediaries. Also within our institutional investment products business, our capital markets group manages 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. The medium-term notes are sold to institutional investors through intermediaries under Rule 144A and

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Regulation S of the Securities Act of 1933, as amended (Securities Act). In addition, a portion of Prudential Financial s SEC-registered medium-term notes program is allocated for sales to retail investors. The proceeds from the sale of the retail notes may be used by Prudential Financial to purchase funding agreements from Prudential Insurance. Proceeds from the retail notes may also be used for general corporate purposes. The capital markets group also distributes funding agreements to institutional investors through our direct sales force and through intermediaries. In February 2009, Prudential Insurance also began issuing funding agreements directly to the Federal Home Loan Bank of New York.

In our payout annuity markets area within our institutional investment products business, 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. Close-out 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 markets area, our models also use assumptions for mortality and early retirement risks. These assumptions may be less predictable in emerging markets, such as the longevity reinsurance market, and significant deviations in actual experience from pricing assumptions could affect the profitability of these products.

Upon sale of certain payout annuity and capital market products within the institutional investment products business, we adjust the duration of our asset portfolio and lock in the prevailing interest rates. Management continuously monitors cash flow experience and works closely with our Asset Liability Management and Risk Management groups to review performance and ensure compliance with our investment policies. We seek to mitigate interest rate risks, including those associated with the current low interest rate environment, with thorough underwriting, pricing and active asset/liability matching portfolio management.

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 and carry as liabilities 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, and strategic investments. These products and services are provided to the public and private marketplace, as well as our U.S. Individual Life and Group Insurance division, International Insurance division and Individual Annuities and Retirement segments, as well as the Closed Block Business.

We earn asset management fees which are typically based upon a percentage of assets under management. In certain asset management fee arrangements, we also receive performance-based incentive fees when the return on assets under management 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. In the markets for our asset management products, we compete based on a number of factors, including investment performance, investment philosophy and process, talent, organizational stability and the client relationship. We offer products across multiple asset classes, with specialized investment teams that employ proven approaches designed to add value in each product area or asset class. The combination of organizational stability and robust institutional and retail businesses has 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. The competition will vary depending on the product or service being offered.

Products and Services

In our asset management areas, we offer the following products and services:

Public Fixed Income Asset Management

Our public fixed income organization 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 strategies and single-sector strategies. We manage traditional asset-liability strategies, as well as customized asset-liability strategies. We also manage hedge strategies, as well as collateralized loan obligations. We 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.

Public Equity Asset Management

Our public equity organization provides discretionary and non-discretionary asset management services to a wide range of clients. We manage a broad array of publicly-traded equity asset classes using various investment styles. The public equity organization is comprised of two wholly-owned registered investment advisors, Jennison Associates LLC and Quantitative Management Associates LLC. Jennison Associates uses fundamental, team-based research to manage portfolios for institutional and private clients through separately-managed accounts and commingled vehicles, including mutual funds through subadvisory relationships. Jennison Associates also manages fixed income portfolios for institutional clients through discretionary accounts and commingled vehicles, including mutual funds through subadvisory relationships.

Quantitative Management Associates manages equity and asset allocation portfolios for institutional and subadvisory clients, including mutual funds, using proprietary quantitative models tailored to meet client objectives.

Private Fixed Income Asset Management

Our private fixed income organization provides asset management services by investing in private placement investment grade debt, private placement below investment grade debt, and mezzanine debt securities. These investment capabilities are utilized by our general account and institutional clients through direct advisory accounts, insurance company separate accounts, and private fund structures. A majority of the private placement investments are directly originated by our investment staff.

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Commercial Mortgage Origination and Servicing

Our commercial mortgage operations provide 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. Due to unfavorable market conditions experienced at that time and the inherent risk of these loans, we suspended the origination of interim loans. Our interim loans are generally paid off through refinancing or the sale by the borrower of the underlying collateral. These loans are inherently more risky than those collateralized by properties that have already stabilized. As of December 31, 2011, the principal balance of interim loans totaled $648 million.

Real Estate Asset Management

Our global real estate organization 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 specific 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.

Strategic Investments

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. The carrying value of these investments was approximately $1.1 billion at both December 31, 2011 and December 31, 2010. For more information on these investments, 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 Asset Management. 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.

Mutual Funds and Other Retail Services

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 41 mutual funds as of December 31, 2011. 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.

Marketing and Distribution

We provide investment management services for our institutional customers through a proprietary sales force organized by asset management business. Each asset management business has an independent marketing and client service team working with clients. Institutional asset management services are also offered through the Retirement segment of the U.S. Retirement Solutions and Investment Management division.

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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 the U.S. Individual Life and Group Insurance division, the International Insurance division, the Individual Annuities segment 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 Realized Investment Gains and Losses and General Account Investments 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.

Certain fixed expenses are allocated between the Individual Life segment and the Closed Block Business based upon allocation methodologies consistent with U.S. GAAP reporting. However, as policies in force within the Closed Block Business continue to mature or terminate, the level of expenses to be allocated to the Closed Block Business will decrease, thereby increasing the expense allocations to the Individual Life segment.

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, price competition is strong. 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 and timing of and our ability to utilize tax deductions associated with statutory reserves, product designs which impact the amount of statutory reserves and the associated tax deductions, and the level of and pace of changes in 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 41%, 49% and 9%, respectively, of our face amount of individual life insurance in force, net of reinsurance at the end of 2011. In recent years, as term life insurance sales have increased and variable life insurance sales have decreased, term life insurance has become a larger percentage of our net in force.

Across all of our products, we offer a living benefits option that allows insureds who are diagnosed with a terminal illness, or permanently confined to a nursing home, to receive a portion of their insurance benefit upon diagnosis, in advance of death, to use as needed.

We have a variety of settlement and payment options for the settlement of life insurance claims in addition to lump sum checks, including placing benefits in retained asset accounts, which earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries.

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 and/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. Each product provides for the deduction of charges and expenses from the customer s contract fund. We also offer a variable life product that has the same basic features as our variable universal life product but also allows for a more flexible guarantee against lapse where policyholders can select the guarantee period. In a portion of the affluent market, we offer a private placement variable universal life product, which also utilizes investment options consisting of equity and fixed income funds. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance.

A significant portion of our Individual Life insurance segment 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. Asset management fees and mortality and expense fees are a key component of variable life product profitability and vary based on the average daily net asset value. Due to policyholder options under some of the variable life contracts, lapses driven by unfavorable equity market performance may occur on a quarter lag with the market risk during this period being borne by the Company.

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.

Individual Life s profits from term insurance are not expected to directly correlate, from a timing perspective, with the increase in term insurance in force. This results from uneven product profitability patterns, as well as varying costs of our ongoing capital management activities related to a portion of the statutory reserves associated with these products, which may vary with each year of business issued.

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. Universal life policies provide for the deduction of charges and expenses from the policyholders contract fund. Individual Life s profits from universal life insurance are impacted by mortality and expense margins and net interest spread.

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. The life insurance products offered are generally the same as those available through Prudential Agents. Our efforts in third party channels are supported by a network of internal and external wholesalers. We also offer a simplified-issue term life insurance policy and a single-premium universal life insurance policy available to customers of select banks and other financial institutions.

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Prudential Agents

Our Prudential Agents distribute Prudential variable, term and universal life insurance, variable and fixed annuities, long-term care, and investment and other protection products with proprietary and non-proprietary investment options as well as selected insurance and investment products manufactured by others. The number of Prudential Agents was 2,529, 2,471 and 2,447 at December 31, 2011, 2010 and 2009, respectively. Average agent productivity, based upon average commissions on new sales of all products by Prudential Agents, has increased to $53,708 for 2011 from $52,739 for 2010 primarily due to higher annuity and mutual fund sales.

Prudential Agent product sales are primarily to customers in the U.S. mass and mass affluent markets, as well as small business owners. Other than certain training allowances or salary paid at the beginning of their employment, we pay Prudential Agents on a commission basis for the products they sell. In addition to commissions, Prudential Agents receive employee benefits, including medical and disability insurance, an employee savings program and qualified retirement plans.

Prior to the sale of our property and casualty insurance operations in 2003, the Individual Life segment had been compensated for property and casualty insurance products sold through Prudential Agents. Following the sale, Prudential Agents have continued access to non-proprietary property and casualty products under distribution agreements entered into with the purchasers of these businesses, as well as other non-proprietary product providers; therefore, the Individual Life segment continues to be compensated for sales of these products.

The compensation arrangements for certain non-proprietary property and casualty products provide an opportunity for additional compensation to the Individual Life segment based on multi-year profitability of the products sold. This additional compensation is not predictable since the multi-year profitability of the products is subject to substantial variability and, additionally, the compensation arrangements are periodically renegotiated which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements was revised effective in late 2008 and the profit opportunities were significantly reduced in 2010 and beyond. We do not expect the profit opportunities from these arrangements to be significant in the future.

As mentioned above, the Individual Life segment distributes products offered by the Annuities, Group Insurance 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

For our fully underwritten life insurance, underwriters follow detailed and uniform policies and procedures to assess and quantify the risk of our individual life insurance products. Depending on the age of the applicant and amount of insurance requested, we require the applicant to take a variety of underwriting tests, such as medical examinations, electrocardiograms, blood tests, urine tests, and gather information such as physician records and investigative reports. 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, expenses, policy persistency, and premium payment pattern in pricing policies. Some of our policies are fully guaranteed. Others have current premiums/charges and interest credits that we can change subject to contractual guarantees.

Our operating results are impacted by changes in interest rates. We routinely update the interest crediting rates that we credit to policyholder accounts on our universal life policies and on the fixed account of our variable life policies, which are both subject to contractual minimum rates. In resetting these rates, we consider the returns on our portfolios supporting these policies, current interest rates, the competitive environment and our profit objectives. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our policyholder accounts. In a prolonged low interest rate environment, this spread may be negatively impacted to the extent that our ability to reduce crediting rates applied to policyholder accounts is limited due to contractual minimum interest crediting rates. We seek to mitigate interest rate risks, including those associated with the current low interest rate environment, with active asset/liability matching portfolio

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management. For term life products, interest rate assumptions used to calculate reserves are fixed at the policy issue date and subsequent declines in portfolio yields have an immediate impact on product profitability.

Our operating results are also impacted by differences between actual separate account fund performance, mortality and persistency experience and the assumptions used in pricing these policies and, as a result, can fluctuate from period to period. Our Individual Life segment employs capital management activities, including the financing of tax deductible statutory reserves required for certain term and universal life insurance policies, to maximize product returns and enable competitive pricing. Capital management activities are impacted by insurance regulations and the cost of financing and our ability to access the capital markets. For a more detailed discussion of our capital management activities see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Financing Activities.

Reserves

We establish and carry as liabilities 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, as well as margins for adverse deviation. For certain products, such as term and universal life, we are required to hold statutory reserves in excess of these liabilities. In these circumstances, we engage in capital management activities, including the use of captive reinsurers, to reduce the financial and pricing impact of carrying a portion of these excess statutory reserves. For variable and interest-sensitive life insurance contracts, we establish liabilities for policyholders account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, expenses and cost of insurance charges. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported.

Reinsurance

The Individual Life segment uses reinsurance as a means of managing mortality volatility and risk capacity, which can impact product profitability. Since 2000, we have reinsured a significant portion of the mortality risk we assume under our newly-sold individual life insurance policies. The maximum exposure we retain is $30 million on a single life and $35 million on a second-to-die policy. In some instances, lower limits apply. 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.

Group Insurance

Our Group Insurance segment manufactures and distributes a full range of group life, long-term and short-term group disability, long-term care, 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. Group Insurance also sells accidental death and dismemberment, preferred provider and indemnity dental and other ancillary coverages, and provides plan administrative services in connection with its insurance coverages.

Competition

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

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Products

Group Life Insurance

We offer group life insurance products including employer-pay (basic) and employee-pay (voluntary) coverages. This portfolio of products includes basic and supplemental term life insurance for employees, optional term life insurance for dependents of employees 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-pay coverages include a portability feature, allowing employees to retain their coverage when they change employers or retire. We also offer a living benefits option that allows insureds that are diagnosed with a terminal illness to receive a portion of their life insurance benefit upon diagnosis, in advance of death, to use as needed.

We have a variety of settlement and payment options for the settlement of life insurance claims in addition to lump sum checks, including placing benefits in retained asset accounts, which earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries.

Group Disability Insurance

We offer short- and long-term group disability insurance, which protects against loss of wages due to illness or injury. Short-term disability generally provides a weekly benefit amount (typically 50%-70% of the insured s earned income up to a specified maximum benefit) for three to six months, and long-term disability covers the period after short-term disability ends. Long-term disability insureds may receive total or partial disability benefits. Most long-term disability policies begin providing benefits following a 90- or 180-day waiting period (during which short-term disability may be provided) and generally continue providing benefits until the insured reaches normal retirement age. Long-term disability benefits are paid monthly and are limited to a portion, generally 50%-70%, of the insured s earned income up to a specified maximum benefit. Our approach to disability claims management incorporates a focus on early intervention, return-to-work programs and successful rehabilitation of claimants. We also offer absence management services which assist employers in managing employee absences and workplace productivity including administrative tracking and management for certain employee absence events. The absence management services we provide can also be integrated with our short- and long-term disability management services.

Other

We offer individual and group long-term care insurance, group corporate-, bank- and trust-owned life insurance and preferred provider organization (PPO) and indemnity dental plans. Long-term care insurance protects the insured from the costs of an adult day care center, a nursing home or similar live-in care situation or a home health or a personal care aide. Group corporate-, bank- and trust-owned life insurance are group variable life insurance contracts typically used by large corporations to fund deferred compensation plans and benefit plans for retired employees. PPO and indemnity dental products, as well as voluntary dental plans, are sold to groups with between 25 and 1,000 employees with no benefit waiting periods.

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. Group Insurance also distributes individual long-term care products through Prudential Agents as well as third party brokers and agents.

Underwriting and Pricing

We have developed standard rating systems for each product line in the Group Insurance segment based on our past experience and relevant industry experience. For our earlier generation long-term care products, experience data was very limited. As the long-term care industry is maturing, the information available, both our own and industry experience, for use in underwriting has improved.

We are not obligated to accept any application for a policy or group of policies from any distributor. We follow industry standard underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit evidence of insurability.

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We determine premiums on some of our policies on a retrospective experience-rated basis, in which case the policyholder bears some of the risk or receives some of the benefit associated with claim experience fluctuations during the policy period. We base product pricing of group insurance products on the expected pay-out of benefits that we calculate using assumptions for mortality, morbidity, interest, expenses and persistency, depending upon the specific product features.

Some policies are not eligible to receive experience-based refunds. The adequacy of our pricing of these policies determines their profitability during the rate guarantee period. In addition, our profitability is subject to fluctuation period to period, based on the differences between actual mortality and morbidity experience and the assumptions used in pricing our policies. However, we anticipate that over the rate guarantee period we will achieve mortality and morbidity levels more closely aligned with the assumptions used in pricing our policies. Market demand for multiple year rate guarantees for new policies increases the risk associated with unanticipated changes in experience patterns as well as deviations from expense and interest rate assumptions. Changes in interest rates affect our operating results by impacting the spread income we earn between our general account invested assets and the interest we attribute to policyholder liabilities. In a prolonged low interest rate environment, this spread may be negatively impacted to the extent our ability to reduce crediting rates applied to policyholder liabilities has limitations, such as, minimum interest crediting rate commitments. We seek to mitigate interest rate risks, including those associated with the current low interest rate environment, with thorough underwriting, pricing and active asset/liability matching portfolio management.

Reserves

We establish and carry as liabilities 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

The Group Insurance segment uses reinsurance to limit losses from large exposures, and in response to client requests. To a smaller extent, we also assume risk through reinsurance in certain situations. 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 Life Advisors, who are associated with our Gibraltar Life operations. Our Gibraltar Life operations include our Gibraltar Life Insurance Company, Ltd., or Gibraltar Life, which we acquired in April 2001, and the businesses of AIG Star Life Insurance Co., Ltd. and AIG Edison Life Insurance Company, which we acquired in February 2011 and subsequently merged with Gibraltar Life on January 1, 2012. 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.

For the year ended December 31, 2011, our Life Planner operation in Japan and our Gibraltar Life operations represented 33% and 56%, respectively, of the net premiums, policy charges and fee income of the International Insurance segment, and in aggregate, represented 55% of the net premiums, policy charges and fee income of the Financial Services Businesses, translated on the basis of weighted average monthly exchange rates. We continue to explore opportunities for a more diverse mix of business including an increased focus on the international retirement market.

We continue to seek opportunities for expansion into high-growth markets in targeted countries, such as in China and India. During 2007, we entered into a joint venture in India where we have a 26% interest, the maximum currently allowed by regulation in India. The joint venture received its insurance license in June 2008 and commenced sales of life insurance products shortly thereafter. In addition, we have an investment in China, through a consortium of investors that holds a minority interest in China Pacific Insurance (Group) Co., Ltd. In December 2009, China Pacific Insurance (Group) Co., Ltd. listed its shares on the Hong Kong exchange, and through December 2011, the consortium of investors sold approximately 65% of its holdings resulting in pre-tax benefits to Prudential of $66 million in 2010 and $237 million in 2011. As of December 31, 2011, the carrying value of our remaining indirect investment in China Pacific Group was $126 million, including an unrealized gain of approximately $99 million, representing changes in market value of China Pacific Group s publicly traded shares, which is included in Accumulated other comprehensive income (loss). There are no restrictions on the consortium of investors from selling its remaining interest in China Pacific Group. For information regarding the Company s new life insurance joint venture in China, see Corporate and Other Corporate Operations.

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 and 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 business. Operations generally invest in local currency securities, typically 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.

Our international investment operations, which are included in the International Insurance segment as part of the Gibraltar Life and Other operations, manufacture proprietary products and distribute both proprietary and non-proprietary products, tailored to meet client needs. We invest in asset management and 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. On April 6, 2011, the Company entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of the Company s subsidiaries that conduct its global commodities business (the Global Commodities Business) and certain assets that are primarily used in connection with the Global Commodities Business. As a result, we have reflected the results of the Global Commodities Business as discontinued operations for all periods presented. This sale was completed on July 1, 2011. In addition, on October 20, 2011, the Company announced it had entered into an agreement to sell its stake in Afore XXI, S.A. de C.V., a private pension fund manager in Mexico, to Banorte, a major bank based in Mexico. This sale was completed on December 2, 2011. Our remaining international investment operations primarily consist of our asset management operations in Japan, India and Taiwan, and our operating joint ventures in China, Italy and Brazil which are accounted for under the equity method.

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

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was $4,709 million, comprised of $4,213 million in cash and $496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan.

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The addition of these operations to our existing businesses increases our scale in the Japanese insurance market and provides complementary distribution opportunities through an increased captive agency force and expanded bank channel distribution, as well as the addition of an established independent agency channel. Star and Edison s bank channel distribution is being transferred and integrated with the bank channel operations of Prudential Gibraltar Financial Life Insurance Company, Ltd., or Prudential Gibraltar. In addition, the Star and Edison companies were merged into Gibraltar Life on January 1, 2012.

Acquisition of Yamato Life

On May 1, 2009, our Gibraltar Life operations acquired Yamato Life, a Japanese life insurance company that had declared bankruptcy in October 2008. Gibraltar Life served as the reorganization sponsor for Yamato and, under the reorganization agreement, acquired Yamato by contributing $72 million of capital to Yamato. Concurrent with our acquisition, substantially all of Yamato s insurance liabilities were restructured under a plan of reorganization to include special surrender penalties on existing policies. These surrender charges were 20% in the first year and decline by 2% each year thereafter. Subsequent to the acquisition, we renamed the acquired company The Prudential Gibraltar Financial Life Insurance Company, Ltd., or Prudential Gibraltar.

Competition

The life insurance markets in Japan and Korea are quite mature and highly penetrated. Private-sector life insurance companies also compete with life insurance cooperatives and postal insurance entities in these markets. Generally, the cooperatives and postal insurance entities are not subject to the stringent insurance regulations that are effective for private-sector life insurers; however, their product offerings are more limited. We generally compete based on service provided to the customers more than on price. Our Gibraltar Life operation focuses on quality service to a broader market segment. This is especially true in the bancassurance market, where we provide quality in-house product expertise. In our operations other than Gibraltar Life and our joint venture in India, we compete by focusing primarily on a limited market using our Life Planner model to offer high quality service and needs-based protection products. The success of our model in some markets makes us vulnerable to imitation and targeted recruitment of our sales force; thus the loss of highly-skilled and productive Life Planners to competitors is a significant competitive risk. We direct substantial efforts to recruit and retain our Life Planners by continuously evaluating and adjusting our training and compensation programs, where appropriate, to positively impact retention.

Products

With a diversified product mix supporting the growing demand for retirement and savings products and continuing demand for protection life insurance products, our international insurance operations offer various traditional whole life, term life, endowment policies (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. Certain of these products are offered with premiums and benefits denominated in U.S. dollars. We also offer variable life products in Japan, Korea, Taiwan and Poland and interest-sensitive life products in all countries with the exception of Brazil and Mexico. In most of our operations, we also offer certain health products with fixed benefits, some of which include a high savings element. In 2010, Gibraltar Life introduced a cancer whole life product which appeals to the business market because of its favorable tax treatment. Cancer whole life products are offered through each of our Japanese entities.

Generally, our international insurance products are non-participating and denominated in local currency. Where non-local currency products are offered, both the premiums and benefits are guaranteed in the currency of the product offered. Certain of our operations offer annuity products including variable annuities in Korea. Our fixed annuity products are primarily represented by U.S. and Australian dollar-denominated fixed annuities in our Gibraltar Life operations. Our Gibraltar Life operations also offer euro and yen-denominated fixed annuity products. These contracts impose a market value adjustment if the invested amount is not held to maturity. The market value adjustment can be positive, resulting in an additional amount for the contractholder, or negative, resulting in a deduction from the contractholder s account value or redemption proceeds.

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Marketing and Distribution

The following table sets forth the number of Life Planners and Life Advisors for the periods indicated.

	As of December 31,		
	2011	**2010**	**2009**
Life Planners:			
Japan	3,137	3,122	3,094
All other countries	3,655	3,443	3,515
Life Advisors	12,791	6,281	6,398
Total	19,583	12,846	13,007

Life Planner Model

Our Life Planner model is significantly different from the way traditional industry participants offer life insurance in Japan and in most of the other countries where we do business. It also differs from the way we market through the Life Advisors and other distributional channels of Gibraltar Life. We believe that our selection standards, training, supervision 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. In general, we recruit Life Planners with:

- university degrees, so that the Life Planner will have the same educational background and outlook as the target customer;
- a minimum of two years of sales or sales management experience;
- no prior life insurance sales experience; and
- a pattern of job stability and success.

The Life Planner s primary objective is to sell protection-oriented life insurance products on a needs basis to mass affluent and affluent customers, as well as to small businesses.

The number of Life Planners increased by 227 from 6,565 as of December 31, 2010 to 6,792 as of December 31, 2011, 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.

Life Advisors

Our Life Advisors are the proprietary distribution force for products offered by Gibraltar Life. Their focus is to provide individual protection products to the broad middle income market in Japan, particularly through relationships with affinity groups. Our Life Advisor 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 Advisors increased 6,510 in 2011 primarily reflecting the acquisition of the Star and Edison Businesses.

Bank Distribution Channel

In 2006, Gibraltar Life commenced sales, primarily of U.S. dollar-denominated fixed annuity products, through banks to supplement its core Life Advisor distribution channel. The fixed annuity product offering was expanded in 2009 to include Australian dollar, euro and yen-denominated products. In 2008, Gibraltar Life began selling protection products, both yen and U.S. dollar-denominated, as a result of the liberalization of banking regulations allowing for the sale of additional insurance products. Sales of products primarily intended to provide premature death protection comprised a major portion of bank channel sales for 2011 and 2010. During 2011, sales of protection products were highly concentrated in single pay or limited pay contracts which tend to be larger policies and therefore have higher average premiums per policy. A significant amount of our sales in Japan through our bank channel distribution is derived through a single Japanese mega-bank. More recently, however, certain of our other bank channel relationships are making an increasing contribution to the sales growth. During the latter half of 2011, we signed a distribution relationship with a second Japanese mega-bank, expanding our distribution to now include two of Japan s three largest banks. We continue to explore other opportunities to expand our distribution capabilities through the bank distribution channel.

Independent Agency Distribution Channel

The acquisition of the Star and Edison Businesses transformed our participation in the Independent Agency Channel in Japan. Our focus will be 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 plan to 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 our products, particularly individual life insurance in Japan and Korea, is more regulated than in the U.S. Generally, premiums in each country are different for participating and non-participating products, but within each product type they are generally similar for all companies. Interest rates guaranteed at issue under our insurance contracts may exceed the rates of return we earn on our investments, and, as a result, we may experience negative spreads between the rate we guarantee and the rate we currently earn on investments. The profitability on our products from these operations results primarily from margins on mortality, morbidity and expense charges. In addition, 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 and carry as liabilities 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.

In some of the markets in which we operate, it is difficult to find appropriate long-duration assets to match the characteristics of our long-duration product liabilities. Due to the long-term nature of many of the products we sell in Japan, we have historically sought to increase the duration of our Japanese yen investment portfolio by employing various strategies, including investing in longer-term securities or, by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities, and have resulted in higher portfolio yields. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and will implement these hedging strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields will depend on the interest rate environment at that time.

Reinsurance

International Insurance reinsures portions of its insurance risks, primarily mortality, with both selected third party reinsurers and Prudential Insurance. International Insurance also buys catastrophe reinsurance that covers multiple deaths from a single occurrence in our Japan, Taiwan and Brazil insurance operations. We also have

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coinsurance agreements 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, and certain strategic joint venture investments, 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 our Capital Protection Framework; and (8) the impact of transactions with other segments.

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

- Our 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries.

- We manage 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 evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the corresponding impact on results is reported within corporate operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries for additional discussion.

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.

During 2011, we received approval from the China Insurance Regulatory Commission to apply for a license to operate a life insurance joint venture in China. The joint venture is expected to commence operations in the latter half of 2012, subject to regulatory approval. We will have a 50% interest in the joint venture company, the maximum currently allowed by regulation in China. The results of this strategic joint venture investment will be reflected in corporate operations.

Divested Businesses

The following operations are businesses that have been or will be sold or exited that did not qualify for discontinued operations accounting treatment under U.S. GAAP. We include the results of these divested businesses in our income from continuing operations, but 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.

Residential Real Estate Brokerage Franchise and Relocation Services

On December 6, 2011, we sold our real estate brokerage franchise and relocation services businesses, which was comprised of Prudential Real Estate and Relocation Services, Inc. (PRERS) and its subsidiaries, to Brookfield Asset Management, Inc. (Brookfield). We retained ownership of a financing subsidiary of PRERS with debt and equity investments in a limited number of real estate brokerage franchises. Under licensing agreements entered into in connection with the sale, the real estate brokerage franchise and relocation services business may continue to use our servicemarks, including Prudential®, during a transition period, and the real estate brokerage franchisees may continue to use our servicemarks, including Prudential®, based on the terms of their respective franchise agreements. Also, we agreed to provide certain Brookfield affiliates with transitional financing for the transferred relocation services that consists of a six month receivables purchase facility of up to $250 million, a six month credit facility of up to $25 million and a three year credit facility of up to $155 million.

The real estate brokerage group marketed franchises primarily to existing real estate companies with the franchise agreements granting the franchisee the right to use the Prudential name and real estate service marks in return for royalty payments on gross commissions generated by the franchisees. The franchises generally were independently owned and operated.

The relocation group offered institutional clients and government agencies a variety of services in connection with the relocation of their employees. These services included: coordination of appraisal; inspection, purchase and sale of relocating employees homes; equity advances to relocating employees; assistance in locating homes at the relocating employee s destination; household goods moving services; client cost-tracking and a variety of relocation policy and group move consulting services. Generally the client was responsible for carrying costs and any loss on sale with respect to a relocating employee s home that was purchased by us. Government clients and certain corporate clients utilized a fixed price program under which we assumed the benefits and burdens of ownership, including carrying costs and any loss on sale.

Financial Advisory

In 2008, we classified our Financial Advisory business as a divested business, reflecting our intention to exit this business. This business consists of our former investment in the Wachovia Securities joint venture described below, which was sold on December 31, 2009, in addition to expenses relating to obligations and costs we retained in connection with the businesses we contributed to the joint venture, primarily for litigation and regulatory matters.

On July 1, 2003, we combined our retail securities brokerage and clearing operations with those of Wachovia Corporation (Wachovia) and formed Wachovia Securities Financial Holdings, LLC (Wachovia Securities). On December 31, 2008, Wachovia merged with and into Wells Fargo & Company (Wells Fargo), which succeeded to Wachovia s rights and obligations under the joint venture agreements. On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities, which includes Wells Fargo Advisors, to Wells Fargo.

Commercial Mortgage Securitization Operations

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. These operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization

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transactions, together with related hedging activities, were previously reported within the Asset Management segment. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment.

Property and Casualty Insurance

In 2003, we sold our property and casualty insurance companies, which included Prudential Property and Casualty Insurance Company (Prupac) that operated nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group, or Liberty Mutual. We have agreed not to compete with the buyers. A non-compete agreement is effective until the termination of our distribution agreement with 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.

In connection with the sale, Liberty Mutual has the right to sell Prupac back to us. This right became exercisable by Liberty Mutual as of October 31, 2010. Under the terms of the put right, the business transferring to us would be the business we already reinsure, as described in the preceding paragraph. Any business written after the 2003 sale and prior to a put closing would also transfer to us but would be fully reinsured by Liberty Mutual.

Prudential Securities Capital Markets

In 2000, we announced a restructuring of Prudential Securities activities to implement a fundamental shift in its business strategy. We subsequently exited the lead-managed equity underwriting business for corporate issuers and the institutional fixed income business. As of December 31, 2011 we had remaining assets amounting to $37 million related to Prudential Securities institutional fixed income activities.

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 and carry as liabilities actuarially-determined reserves for future policy benefits that we believe will meet our future obligations.

Other

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 under the terms of the reinsurance treaties. In addition, we previously marketed individual life insurance in Canada through Prudential of America Life Insurance Company, or PALIC. In 2000, we sold our interest in PALIC and remain subject to mortality risk for certain assumed individual life insurance policies sold by PALIC under the terms of the reinsurance treaties. We establish and carry as liabilities 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, 2011, the net amount at risk was $68 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.

We also exited the equity sales, trading and research operations of the Prudential Equity Group in 2007, and retained certain securities relating to trading exchange memberships of these former operations. These securities were received in 2006 in connection with the commencement of public trading of stock exchange shares, and were fully disposed of in 2008.

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Discontinued Operations

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

- We sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business to Aetna Inc. in 1999.
- We discontinued certain branches of our international securities operations in the fourth quarter of 2002. In the fourth quarter of 2004, we discontinued the remaining branches of our international securities operations.
- We discontinued the equity sales, trading and research operations of the Prudential Equity Group in the second quarter of 2007.
- 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.

In addition, 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, 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 that will be 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 we expect will 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 continues. 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, 2011, 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.

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 policies in the Closed Block are 90% reinsured, including 7% by a wholly-owned subsidiary of Prudential Financial. In 2011, we also reinsured 90% of the short-term risks associated with the Closed Block policies to a wholly-owned subsidiary of Prudential Financial. 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. See Note 13 to the Consolidated Financial Statements for additional discussion on the accounting of these reinsurance arrangements.

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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 will be available for distribution over time to Closed Block policyholders as part of policyholder dividends, and it will not be available to shareholders. A policyholder dividend obligation liability is established for these 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.

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. The agreement is intended to avoid customer confusion in areas where both companies compete. 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 U.S. and international insurance companies, asset managers and diversified financial institutions. 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, perceived financial strength, and financial strength and credit ratings. The relative importance of these factors varies across our products, services and the markets we serve.

Adverse market and economic conditions in recent years have resulted, and may continue to result, in changes in the competitive landscape. For example, the financial distress experienced by certain financial services industry participants as a result of such conditions, including government mandated sales of certain businesses, may lead to additional favorable acquisition opportunities, although our ability or that of our competitors to pursue such opportunities may be limited due to lower earnings, reserve increases, and an inability to access sufficient sources of financing. Such conditions have led and may in the future lead to changes by us or our competitors in product offerings, product pricing and business mix that could affect our and their relative sales volumes, market shares and profitability. It is also possible that such conditions may put U.S. companies with financial operations in non-U.S. locations at a competitive disadvantage relative to domestic companies operating in those locations and may impact sales in those locations. Additionally, the competitive landscape may be further affected by government sponsored programs in the U.S. and similar governmental actions outside of the U.S. in response to severe dislocations in financial markets. Competitors receiving governmental financing or other assistance or subsidies, including government guarantees of their obligations, may have or obtain pricing or other competitive advantages. Changes in laws and regulations in response to adverse market and economic

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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. The competitive landscape may also be impacted by longer term fiscal policies in response to adverse market and economic conditions including tax law changes, and the impacts of such policies on interest rates and economic and market conditions generally and on financial and insurance products.

Consolidations among companies in the financial services industry may occur and result in competitors with increased market shares, or the introduction of larger or financially stronger competitors through acquisitions or otherwise, in lines of business in which we compete.

Certain of our products compete on the basis of investment performance. A material decline in the investment performance of these products could have an adverse effect on our sales, as well as potentially increase the level of withdrawals and customer complaints. Rankings and ratings of investment performance have a significant effect on our ability to increase our assets under management.

Competition for personnel in our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Advisors 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.

Many of our businesses are in industries where access to multiple sales channels may be a competitive advantage. We currently sell insurance and investment products through both affiliated and non-affiliated distribution channels, including: (1) our captive sales channel; (2) independent agents, brokers and financial planners; (3) broker-dealers that generally are members of the New York Stock Exchange, including wirehouse and regional broker-dealer firms; (4) broker-dealers affiliated with banks or that specialize in marketing to customers of banks; (5) intermediaries such as retirement plan administrators; and (6) a rapidly growing bank channel in Japan. While we believe that certain insurance and investment products will continue to be sold primarily through face-to-face sales channels, customers desire for objective and not product-related advice may, over time, increase the amount of insurance and investment products sold through non-affiliated distributors. In addition, we expect that certain insurance and investment products will increasingly be sold through direct marketing, including through electronic commerce.

Although we distribute our products through a wide variety of distribution channels, we do maintain relationships with certain key distributors. For example, historically, a significant amount of our sales in Japan through banks have been derived through a single Japanese mega-bank and a significant portion of our sales in Japan through Life Advisors is derived through a single association relationship. We recently signed a distribution agreement with a second Japanese mega-bank, expanding our distribution to now include two of Japan s three largest banks. We will continue to explore other opportunities to expand our distribution capabilities through the bank channel, as well as other complementary distribution channels. 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.

The proliferation and growth of non-affiliated distribution channels puts pressure on our captive sales channels to remain competitive with respect to product offerings, compensation, services offered, and recruiting and retention. We continue our efforts to strengthen and broaden our sales channels, but we cannot assure that we will be successful. We run the risk that our competitors will have more distribution channels, stronger relationships with non-affiliated distribution channels, or will make a more significant or rapid shift to direct distribution alternatives than we anticipate or are able to achieve ourselves. If this happens, our market share and results of operations could be adversely affected.

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 recent financial market dislocations 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. As a result of terrorist activity in the U.S. and abroad, U.S. law and regulation of our international businesses, particularly as it relates to monitoring customer activities, remains a significant factor in our operations.

Regulation Affecting Prudential Financial

Prudential Financial is the holding company for all of our operations. Prudential Financial itself is not licensed as an insurer, investment advisor, broker-dealer, bank or other regulated entity. However, because it owns regulated entities, Prudential Financial is subject to regulation as an insurance holding company. Prudential Financial currently is also subject to regulation as a savings and loan holding company. However, we intend to limit the operations of Prudential Bank & Trust, FSB to trust services prior to the effectiveness of the Volcker Rule provisions of the Dodd-Frank Act in July 2012, permitting us to continue our institutional asset management business without the restrictions described below that might otherwise apply under the Volcker Rule. Such limitation will allow us to deregister 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. 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.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which effects comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. Dodd-Frank directs existing and newly-created government agencies and bodies to conduct certain studies and 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 results of the studies or the requirements of the regulations 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 we have identified to date of Dodd-Frank s potential impact on us include:

Dodd-Frank establishes a Financial Stability Oversight Council (Council) which is authorized to subject non-bank financial companies such as Prudential Financial to stricter prudential standards (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. In October 2011, the Council published for comment proposed regulations setting forth the criteria by which it will designate Designated Financial Companies in a three stage process. Based on the stage 1 criteria, which include having at least $50 billion in assets and meeting one of five additional quantitative measures, Prudential Financial would be subject to stage 2 consideration. We cannot predict whether Prudential Financial or a subsidiary will ultimately be designated as a Designated Financial Company. If so designated, we would become subject to stricter prudential standards that are the subject of ongoing rule-making, including 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 Board of Governors of the Federal Reserve System (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, including requirements and limitations relating to risk-based capital, leverage, liquidity, stress testing (discussed further below), and counterparty credit exposure, as well as overall corporate risk management requirements. 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 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%. Designated Financial Companies with $50 billion or more in total consolidated assets 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, consistent with the Basel III framework discussed below. The proposed rules also include enhanced liquidity requirements (which may in the future be supplemented with specific quantitative liquidity requirements based on Basel III liquidity ratios), which would require Designated Financial Companies to produce, and regularly stress-test, comprehensive cash flow projections and maintain a liquidity buffer of highly liquid unencumbered assets sufficient to meet projected cash flows under such stress-testing, and would further require such companies 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 company to no more than 25% of its consolidated capital stock and surplus (or, in a case of a designated financial company having total consolidated assets of $500 billion or more, such as the Company, 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 or restrictions on executive compensation; requirements to elect new directors or hire new executive officers; 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, upon a determination by the Council that such company poses a grave threat to financial stability of the U.S., maintain a debt-to-equity ratio of no more than 15-to-1 until such time as the Council determines 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. We cannot predict how the FRB will apply these prudential standards to insurance-based financial services organizations such as ourselves if we are designated as a Designated Financial Company. In addition to the foregoing, if we were designated as a Designated Financial Company, the Collins Amendment capital requirements referred to below would apply when adopted by the FRB (i.e., the 5-year grandfathering referred to below would no longer be available). The FRB could also require the issuance of capital securities automatically convertible to equity in the event of financial distress, require enhanced public disclosures to support market evaluation of risk profile and impose short-term debt limits.

Until deregistration as a savings and loan holding company is effective, Prudential Financial is subject in that capacity to the examination, enforcement and supervisory authority of the FRB. Pursuant to the Collins Amendment included in Dodd-Frank, the FRB must establish minimum leverage and risk-based capital requirements for savings and loan holding companies (including Prudential Financial) and other institutions that are not less than those applicable to insured depository institutions. These requirements would become generally applicable to Prudential Financial as a savings and loan holding company on July 21, 2015 (five years after Dodd-Frank s enactment) except, for purposes of calculating Tier 1 capital, new issuances of debt and equity capital will be immediately subject to the requirements. The risk-based capital requirements currently applicable to most bank holding companies and insured depository institutions are based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee); U.S. federal bank regulatory agencies have also adopted new risk-based capital guidelines for large, internationally active banking organizations based on revisions to Basel I issued by the Basel Committee in 2004 (Basel II). In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (Basel III). Basel III,

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when implemented by U.S. regulation and fully phased-in, will require bank holding companies and insured depository institutions to maintain substantially more capital, with a greater emphasis on common equity, and to comply with liquidity coverage and net stable funding standards, including the imposition of a counter-cyclical capital buffer. The Collins Amendment requires the FRB to adopt regulations imposing a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. Regulations that have been adopted to date to implement these requirements 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 insurance-based organizations. If designated as a Designated Financial Company, and until deregistration as a savings and loan holding company, we will be subject to stress tests to be promulgated by the FRB in consultation with the newly-created Federal Insurance Office (discussed below) to determine whether, on a consolidated basis, we have the capital necessary to absorb losses as a result of adverse economic conditions. Under the proposed rules published for comment in December 2011, if designated as a Designated Financial Company 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 to assess our capital adequacy and identify potential risks. Under the proposed rules, to the extent we remain a savings and loan holding company but are not designated as a Designated Financial Company, we would be subject to the same stress test requirements as above except that we would not be required to conduct the internal semi-annual stress tests. Summary results of such stress tests would be required to be publicly disclosed. We cannot predict whether the proposed rules will be adopted in their current form or the manner in which the stress tests will ultimately be designed, conducted and disclosed for insurance-based Designated Financial Companies or savings and loan holding companies, and we cannot predict whether the results thereof 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 that could create or increase the risk that significant liquidity, credit or other problems spread among financial companies. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

Absent our intended conversion of our federal thrift to a trust-only operation, we would become subject to the Volcker Rule provisions of Dodd-Frank prohibiting, subject to the rule s exceptions, proprietary trading and the sponsorship of, and investment in, funds (referred to in Dodd-Frank as hedge funds or private equity funds) that rely on certain exemptions from the Investment Company Act of 1940, as amended (collectively, covered funds). The Volcker Rule will become effective on July 21, 2012 and compliance with the rule will be phased in through July 2014, subject to various extensions and exceptions. In October 2011, the federal banking agencies issued a joint notice of proposed rulemaking to implement the Volcker Rule. Under the proposed rules, the proprietary trading prohibition would not materially alter our securities trading practices as trading by our domestic and foreign insurance subsidiaries for their separate accounts or for their general accounts are permitted activities so long as such trading complies with applicable state or foreign insurance company investment laws and regulations. However, if the proposed rules were adopted in their current form and were interpreted to prohibit insurance company investments in covered funds, or to apply the aggregate limit of 3% of Tier 1 capital to our coinvestment in covered funds sponsored by our Prudential Investment Management (PIM) or other operations, our insurance subsidiaries would be required to dispose of covered fund investments. Furthermore, our PIM investment management operations sponsor covered funds in which we coinvest (in both insurance and non-insurance subsidiaries) that are directly affected by the Volcker Rule prohibitions which, among other things, limit permanent investment by a sponsoring company in any one fund to no more than 3% of fund capital, limit covered fund marketing except to bona fide trust, fiduciary or investment advisory customers, prohibit covered transactions between a fund and the sponsoring company and prohibit the use of the sponsoring company s name in the fund s name. Absent our conversion to a trust-only bank, adoption of the proposed regulations in their current form would require us to dispose of some covered fund investments, significantly alter our business practices in these operations and/or diminish the attractiveness of our covered fund products to clients. Assuming we complete the conversion to a trust-only bank prior to July 21, 2012, but Prudential Financial is designated as a Designated Financial Company, the Volcker Rule prohibitions would not apply but 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, covered funds. In addition, actions taken by other financial entities in response to the Volcker Rule could potentially negatively affect the market for, returns from or liquidity of our investments in covered funds affiliated with such other financial entities.

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, with 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. While 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, the final regulations adopted could provide otherwise, which could substantially increase the cost of hedging and the related operations. A determination by the Secretary of the Treasury not to exclude foreign currency swaps and forwards from the foregoing requirements also could have that result. PGF intermediates swaps between Prudential entities (other than PFI) and third parties, and it is possible that PGF s standardized intra-Company transactions might be required to be executed through an exchange, and to be cleared centrally with posted margin, potentially defeating PGF s key function; if so, Prudential entities might directly enter into swaps with third parties, potentially increasing the economic costs of hedging. The SEC and CFTC 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 banking institutions (with which we enter into a substantial portion of our derivatives) will be required to conduct at least a portion of their OTC derivatives businesses outside their depositary institutions. The affiliates through which these institutions will conduct their OTC derivatives businesses might be less creditworthy than the depository institutions themselves, and netting of counterparty exposures with non-banks will not be allowed, potentially affecting the credit risk these counterparties pose to us and the degree to which we are able to enter into transactions with these 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 establishes a Federal Insurance Office 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 director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council and making recommendations to the Council regarding insurers (potentially including the Company) to be designated for stricter regulation and coordinating with the FRB in the application of any stress tests required to be conducted with respect to an insurer. The Federal Insurance Office is authorized to require an insurer or its affiliates to submit data and information that the office reasonably requires to carry out its functions. The 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. Although the study was to be completed in January 2012, it has not yet been released.

Dodd-Frank authorizes the FRB to require a Designated Financial Company or a savings and loan holding company to place its financial activities in an intermediate holding company separate from non-financial

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activities (as defined for purposes of the Bank Holding Company Act) and imposes restrictions on transactions between the two businesses. While our non-financial activities are minor, the imposition of such a requirement on us could be burdensome and costly to implement.

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 director of the Federal Insurance Office 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. 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.

Dodd-Frank establishes the Bureau of Consumer Financial Protection (CFPB) as an independent agency within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes, with rule-making and enforcement authority over unfair, deceptive or abusive practices. Insurance products and services are not within the CFPB s general jurisdiction, and broker-dealers and investment advisers are not subject to the CFPB s jurisdiction when acting in their registered capacity. Retirement service providers such as us could become subject to the CFPB s jurisdiction, but only if the Department of Labor and the Department of the Treasury agree. Otherwise, we believe we offer a very limited number of products subject to CFPB regulation and the impact of Dodd-Frank on our operations in this regard should not be material; however, it is possible that the regulations promulgated by the CFPB will assert jurisdiction more expansively than we anticipate.

Dodd-Frank includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith, including:

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, consider harmonization of the regulation applicable to investment advisers and broker-dealers functions taking into account the best elements of each regime and conduct rulemakings or provide guidance to facilitate the implementation of a federal fiduciary standard of care. The SEC staff study acknowledges that Dodd-Frank provides that the offering of proprietary products would not be a per se violation of any new standard of care and that broker-dealers selling proprietary or a limited range of products could be permitted to make certain disclosures about their limited product offerings and obtain customer consents or acknowledgements.

In March 2011, the SEC and other regulators published for comment proposed regulations, as required by Dodd-Frank, requiring the securitizer, and possibly the originator, of certain asset-backed securities to retain at least 5% of the credit risk of securities sold. Depending on how the final rule is implemented, these requirements may apply to certain activities of our retirement and investment management segments if we are treated as a securitizer or an originator.

Dodd-Frank imposes various assessments on financial companies, including: ex-post assessments to provide funds necessary to repay any borrowing and to cover the costs of any special resolution of a financial company conducted under Title II (although the FDIC is to take into account assessments otherwise imposed under state insurance guaranty funds); if we were to become a Designated Financial Company, assessments to fund a newly-created Office of Financial Research which, among other things, assists the Council; and assessments for the costs of our new regulation by the FRB. We are unable to estimate these costs at this time.

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.

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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 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals 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, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA), and proposals to permit U.S.-style class action litigation in the United Kingdom with respect to financial services claims. 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 is expected to come into force in January 2014. This new regime will replace the Solvency I 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, *inter alia*, group level supervision mechanisms. In particular, the Solvency II regime may have significant implications for non-European insurance groups, like ourselves, that have established insurance undertakings (whether branches or subsidiaries) within the EEA. Subsidiaries and branches of non-European insurance groups will have to comply with local regulations reflecting heightened prudential standards. At the group level, if group supervision in the jurisdiction of the ultimate parent of a non-European insurance group (*i.e.*, the U.S. in the case of Prudential Financial) is recognized as equivalent to the Solvency II regime, EEA member states are required by the Directive to rely on the equivalent group supervision exercised by the U.S. supervisory authorities; however, if group supervision in the U.S. is not regarded as equivalent, European supervisors would have the power to require the establishment of a European holding company to create a sub-group consisting of all undertakings (branches and subsidiaries) domiciled in Europe, which would then be subject to supervision by a lead European supervisor. Whether the U.S. supervisor will be deemed equivalent at implementation or eligible for inclusion in a transitional regime, if any, is still under consideration and remains uncertain. 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.

Further regulatory initiatives may develop in response to the ongoing European sovereign debt crisis and other significant economic and political events (including any structural reforms or other changes made to the euro, the Eurozone or the European Union).

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

There is uncertainty regarding U.S. taxes both for individuals and corporations in light of the fact that many tax provisions recently enacted or extended began to sunset at the end of 2011. In addition, the recommendations made by the President s bipartisan National Commission on Fiscal

Responsibility and Reform and other deficit reduction panels suggest the need to reform the U.S. Tax Code. Congress has held a number of hearings devoted to tax reform. Some of those hearings have discussed lowering the tax rates and broadening the base by reducing

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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.

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. Other legislative changes, such as changes to the estate tax, also could reduce or eliminate the attractiveness of annuities and life insurance products to consumers. The estate tax was completely eliminated for 2010, but modified carryover basis rules applied for property acquired from decedents dying in that year. The estate tax has been reinstated through 2012 with a $5 million individual exemption, a 35% maximum rate and step-up in basis rules for property acquired from a decedent. Estates of decedents who died in 2010 can choose between the rules that were in effect in 2010 or the new rules. On February 13, 2012, the Obama Administration released the General Explanations of the Administration s Revenue Proposals, or Revenue Proposals. The Revenue Proposals include a provision that would make permanent a $3.5 million individual exemption and a 45% maximum estate tax rate. It is unclear what Congress will do with respect to the estate tax after 2012.

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%. The Revenue Proposals include a proposal to change the method used to determine the amount of the DRD. A similar proposal was included in the President s deficit reduction recommendations that were released to Congress.

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.

Congress failed to extend a number of tax provisions that expired at the end of 2011. One such provision provides tax deferral for investment income earned by a foreign insurance operation until the income is repatriated to the U.S. Although Congress may, as it has done in the past, extend retroactively all expired provisions, the failure of Congress to do so will subject the Company to current U.S. tax on investment income earned by its foreign insurance subsidiaries.

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

Proposed Financial Crisis Responsibility Fee

The Obama Administration s General Explanations of the Administration s Revenue Proposals 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 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.

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 International Association of Insurance Supervisors, or the IAIS, and the National Association of Insurance Commissioners, or the NAIC, have promulgated model laws for adoption internationally and 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. 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 may impose on Prudential Financial.

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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. While these pre-notification statutes do not authorize the state insurance departments to disapprove the change in control, they authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of Prudential Financial may require prior notification in those states that have adopted pre-acquisition notification laws.

As a result of its ownership of Prudential Bank & Trust, FSB, (PB&T) Prudential Financial and Prudential IBH Holdco, Inc. are currently considered to be savings and loan holding companies subject to the examination, enforcement and supervisory authority of the FRB. We currently offer trust services and banking products through PB&T. As noted above, in 2012 we intend to limit the operations of PB&T to trust services, so that all or substantially all deposits, if any, will be trust funds received in a fiduciary capacity. Such limitation will allow us to deregister as a savings and loan holding company. As a trust-only organization, PB&T would not have access to a Federal Reserve credit line and would not be permitted to issue commercial loans or checking accounts. PB&T, as a trust-only organization, would be regulated by the Office of the Comptroller of the Currency (OCC) as a federal savings association and Prudential Financial would be 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. Products in the U.S. that also constitute securities, such as variable life insurance and variable annuities, are also subject to federal and some state securities laws and regulations. The Securities and Exchange Commission, or the SEC, the Financial Industry Regulatory Authority, or FINRA, and some state securities commissions regulate and supervise these products.

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. The NAIC has approved a series of statutory accounting principles that have been adopted, in some cases with minor modifications, by all state insurance departments.

Beginning with the annual reporting period ending December 31, 2010, the NAIC adopted revisions to the Annual Financial Reporting Model Regulation, or the Model Audit Rule, related to auditor independence, corporate governance and internal control over financial reporting. The adopted revisions require that we file reports with state insurance departments regarding our assessment of internal control over financial reporting.

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.

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 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information.

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. The RBC ratios for each of our U.S. insurance companies currently are above the ranges that would require any regulatory or corrective action.

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.

Insurance regulators 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 make progress in developing a principles based reserving approach for life insurance products. The timing and the effect of these changes are still uncertain.

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.

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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. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined usual ranges. Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the 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, 2011, 2010 and 2009, we paid approximately $3.6 million, $0.8 million and $4.5 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. In 2009, we received $9.3 million of refunds for assessments paid in prior years. While we cannot predict the amount and timing of any 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 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

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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 advisors 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. In this regard, the Pension Protection Act of 2006 (PPA) made significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. 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. The Worker, Retiree and Employer Recovery Act (the Employer Recovery Act) was passed in December 2008 in response to the financial crisis that began in the last half of 2007. The Employer Recovery Act modifies the method of calculating a plan s assets for purposes of satisfying the minimum funding rules set forth in the PPA, and ameliorates the financial impact of a plan not meeting its current funding target. As a result, the Employer Recovery Act may have the effect of delaying some of the positive and negative impacts of the PPA on our business.

For a discussion of potential federal tax legislation and other federal regulation affecting our variable annuity products, see Insurance Operations Federal Regulation above.

Securities Regulation

We have subsidiaries that are broker-dealers, investment advisors or commodity trading advisors. The SEC, the CFTC, state securities authorities, FINRA, the Municipal Securities Rulemaking Board, and similar authorities are the principal regulators of these subsidiaries.

Our broker-dealer affiliates are members of, and are subject to regulation by, self-regulatory organizations, including FINRA. Self-regulatory organizations such as FINRA conduct examinations of, and have adopted rules governing, their member broker-dealers. 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 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 or an investment advisor or its employees.

As registered broker-dealers and members of various self-regulatory organizations, our U.S. registered broker-dealer subsidiaries are subject to the SEC s Uniform Net Capital Rule. The Uniform Net Capital Rule sets the minimum level of net capital a broker-dealer must maintain and also requires that at least a minimum part of a broker-dealer s assets be kept in relatively liquid form. These net capital requirements are designed to measure the financial soundness and liquidity of broker-dealers. Our broker-dealers are also subject to the net capital requirements of the CFTC and the various securities and commodities exchanges of which they are members. Compliance with the net capital requirements could limit those operations that require the intensive use of capital, such as underwriting and trading activities, and may limit the ability of these subsidiaries to pay dividends to Prudential Financial.

Privacy Regulation

Federal and state law and regulation 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.

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. 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.

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It is also becoming increasingly common for regulatory developments originating in the U.S., such as those discussed above, to be studied and adopted in some form in other jurisdictions in which we do business and for regulatory proposals developed in other jurisdictions (including the European Union) or by international standard setting bodies to have cross-border impact on how our businesses are regulated. For example, the insurance regulatory authorities in other jurisdictions, including Japan and Korea, have introduced Sarbanes-Oxley type financial control requirements as well, and 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. Changes such as these can increase compliance costs and potential regulatory exposure. 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. In some jurisdictions, including Korea and Taiwan, new privacy protection laws have the potential to negatively impact certain aspects of our Life Planner business model, including our reliance on customer referrals to generate new sales.

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 through a joint venture in which we have a minority interest. We also received approval in 2011 from the China Insurance Regulatory Commission to apply for a license to operate a life insurance joint venture in China. 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 solvency margin ratios for each of our international insurance operations currently are above the ranges that would require any regulatory or corrective action.

The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements that will revise risk charges for certain assets and change the manner in which an insurance company s core capital is calculated. Under the revised requirements, certain financial assets will now be excluded from the core capital calculation and certain investment risk factors, including derivatives and foreign exchange, will be revised. These changes are effective for the fiscal year ending March 31, 2012; however, we have already begun to publicly disclose both our old and new solvency margin calculations. We believe that the solvency margins of our Japanese insurance subsidiaries under the new method will continue to satisfy regulatory and other requirements and will not negatively impact our competitive position. 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

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regulatory requirements for those companies deemed to be systemically important financial institutions, or SIFIs, in the U.S. or abroad. It is unclear what criteria will be used to determine which companies will be deemed to be SIFIs or whether we will be so treated.

In addition, the International Association of Insurance Supervisors (IAIS), an international standard setting body, has been developing model regulatory standards that may result in the imposition of new or more rigorous model regulatory requirements on our insurance operations in one or more countries related to risk management, corporate governance, group-wide supervision of insurance groups, as well as enhanced solvency, capital and liquidity requirements.

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 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information regarding the ability of our international subsidiaries to pay dividends to Prudential Financial.

Our international investment 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, 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, brokerage, 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. Some of these operations may be registered investment advisers under the Investment Advisers Act of 1940, as amended. Our international businesses may also be subject to other 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. Further, certain of our businesses, particularly those with operations in the United Kingdom (U.K.), are also subject to the U.K. s recently enacted 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. In addition, in some jurisdictions, some of our insurance products are considered securities under local law. In those instances, we may also be subject to local securities regulations and oversight by local securities regulators.

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, 2011, 2010 and 2009, we paid approximately $29 million, $16 million and $15 million, respectively, in assessments pursuant to Japanese insurance guaranty association laws. As a result of our acquisition of Star and Edison in 2011, our overall share of the life insurance market in Japan, and therefore our share of any future assessments under Japanese guaranty laws, will be proportionately higher than in the past.

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.

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In 2009, Taiwan enacted a corporate income tax rate decrease from 25% to 20% effective January 1, 2010. Also in 2009, Mexico enacted a corporate income tax rate increase effective in 2010. In 2010, Taiwan further 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. The Japan ruling party has proposed 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.

While no official announcement has been made, there is speculation that the Japan National Tax Authority (NTA) may reduce the corporate tax deductibility of premiums paid for cancer products. Such a change could result in a decrease in the sale of such products in Japan.

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 and profitability.

Employees

As of December 31, 2011, we had 50,104 employees and sales associates, including 31,219 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 could materially affect 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. 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.

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

Some of our businesses and our results of operations were materially adversely affected by adverse conditions in the global financial markets and adverse economic conditions in recent years. Our businesses, results of operations and financial condition may be adversely affected, possibly materially, if these conditions persist or recur.

Uncertainty and concerns with respect to market, economic and financial conditions in Europe intensified in the latter part of 2011. These concerns have given rise to a perceived risk of default on the government securities of certain European countries, including Greece, Ireland, Italy, Portugal and Spain, and fears of a contagion that could lead to the insolvency of, or defaults by, other countries as well as financial institutions with significant direct or indirect exposure to the government securities of affected countries. The credit ratings of most European countries have been downgraded by certain of the major rating agencies. Yields on the government securities of most European Union member states have been volatile. The European Union, the European Central Bank and the International Monetary Fund have implemented or proposed programs to address these conditions. We cannot predict with any certainty whether these programs will be successful or the effect that continuing adverse European market, economic and financial conditions or such programs may have on the future viability of the euro or the European Monetary Union. 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.

Even under relatively favorable market conditions, our insurance and annuities products and certain of our 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 services, which depend on fees related primarily to the value of assets under management or transaction volume, and could further decrease the value of our strategic investments.

- A change in market conditions, including prolonged periods of high inflation, could cause a change in consumer sentiment and behavior adversely affecting sales and persistency of our long-term savings and protection products. A prolonged period of 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.

Hedging instruments we hold to manage foreign exchange, product, and other risks might not perform as intended or expected resulting in higher realized losses and unforeseen cash needs. Market conditions can limit availability of hedging instruments 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 hedging strategies rely on the performance of counterparties to such hedges. These counterparties may fail to perform for various reasons resulting in unhedged exposures and 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, the latter especially if we were to need to sell a significant amount of investments under such conditions. For example, a widening of credit spreads increases the net unrealized loss position (currently in an unrealized gain position) of our investment portfolio and may ultimately result in increased realized losses. Values of our investments and derivatives can also be impacted by reductions in price transparency, changes in assumptions or inputs we use in estimating fair value and changes in investor confidence and preferences, potentially resulting in higher realized or unrealized losses. Volatility can make it difficult to value certain of our securities if trading becomes less frequent. 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. The consequences of holding cash for long periods of time may necessitate increased purchase of derivatives for duration 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.

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 capital market conditions have in the past, and could in the future, 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 be unable to obtain such.

Adverse capital market conditions have affected and may affect in the future 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. Without sufficient liquidity, we could be forced to curtail certain of our operations, and our business could suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short- and long-term instruments, including securities lending and repurchase agreements, commercial paper, medium and long-term debt and capital securities.

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Disruptions, uncertainty and volatility in the financial markets limited and, to the extent they persist or recur, may limit in the future our access to capital required to operate our business, most significantly our insurance and annuities operations. These market conditions may in the future limit our ability to replace, in a timely manner, maturing debt obligations and access the capital necessary to grow our business, replace capital withdrawn by customers or raise new capital required by our subsidiaries as a result of volatility in the markets. As a result, under such conditions we may be forced 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. Actions we might take to access financing may in turn cause rating agencies to reevaluate our ratings. Our ability to borrow under our commercial paper programs is also dependent upon market conditions. Future deterioration of our capital position at a time when we are unable to access the long-term debt or commercial paper markets could have a material adverse effect on our liquidity. Our internal sources of liquidity may prove to be insufficient.

We may seek additional debt or equity financing to satisfy our needs. The availability of additional financing will depend 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. Further, any future equity offerings would dilute the ownership interest of existing shareholders.

The Risk Based Capital, or RBC, ratio is a primary measure by which we and state insurance regulators evaluate the capital adequacy of Prudential Insurance and our other domestic life insurance subsidiaries, which includes businesses in both the Financial Services Businesses and the Closed Block Business. We manage Prudential Insurance and our other domestic life insurance subsidiaries RBC ratios to a level consistent with their ratings objectives; however, rating agencies take into account a variety of factors in assigning ratings to our insurance subsidiaries in addition to RBC levels. RBC is determined by statutory rules that consider risks related to the type and quality of the invested assets, insurance-related risks associated with Prudential Insurance s products, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of Prudential Insurance s statutory capitalization. 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. The failure of Prudential Insurance and our other domestic insurance subsidiaries to meet applicable 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. In addition, RBC ratios may impact our credit and claims paying ratings. Our international insurance companies are subject to conceptually similar measures of capital adequacy, including solvency margins 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. U.S. and international insurance regulators may change capital requirements, as described herein.

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.

Our asset management operations include real estate held in Prudential Insurance separate accounts, for the benefit of clients, which enter into forward commitments that typically are funded from separate account assets and cash flows and related separate account funding sources. Adverse credit and real estate capital market conditions affecting fund liquidity and the availability of financing could produce challenges in meeting these commitments in the normal course. In such cases, Prudential Insurance might be called upon or required to provide interim funding solutions, which could affect the availability of liquidity for other purposes.

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 that, as of December 31, 2011, totaled $3.75 billion. 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.

We have experienced and may experience additional downgrades in our financial strength or credit ratings. A downgrade or potential downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered, increase our borrowing costs and/or hurt our relationships with creditors, trading counterparties or reinsurers and restrict our access to alternative sources of liquidity.

Financial strength ratings, which are sometimes referred to as claims-paying ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy, and are important factors affecting public confidence in an insurer and its competitive position in marketing products, including Prudential Insurance and our other insurance company subsidiaries. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness, and Prudential Financial s credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. 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. For a description of material rating actions that have occurred from the beginning of 2011 through the date of this filing, see Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings.

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.

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Ratings downgrades and changes in credit spreads may require us to post collateral, thereby affecting our liquidity, and we may be unable to effectively implement certain capital management activities as a result, or for other reasons.

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, 2011 (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 $75 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 $1.8 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 $28 million, or collateral posting in the form of cash or securities to be held in a trust.

In addition, agreements in connection with capital management activities for our universal life insurance products would require us to post cash collateral based on tests that consider the level of 10-year credit default swap spreads on Prudential Financial s senior debt. As of December 31, 2011, no collateral amounts were required to be paid.

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 the cash income from our investments 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. 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 value of liabilities would generally remain unchanged.

- A decline in interest rates accompanied by unexpected prepayments of certain investments could result in reduced investments and a decline in our profitability. An increase in interest rates accompanied by unexpected extensions of certain lower yielding investments could result in a decline in 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.

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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, our estimate of the liability cash flow profile may turn out to be inaccurate. In addition, there are practical and capital market limitations on our ability to accomplish this matching, especially in some of our Asian operations. 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.

Our ability to meet obligations, pay shareholder dividends, and to engage in share repurchases may be adversely affected by limitations imposed on inter-affiliate distributions and transfers by Prudential Insurance and our other 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 financial markets and bank facilities. As described under Business Regulation and in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, our domestic and foreign insurance and various other subsidiary companies, including Prudential Insurance, 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 Prudential Insurance and other 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 National Association of Insurance Commissioners, or 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. Difficult market conditions could also affect our ability to pay shareholder dividends and conduct share repurchases.

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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, instances of which have occurred in recent periods, 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. This is a more pronounced risk to us in view of the recent stresses suffered by financial institutions. 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.

The eligible collateral that Prudential Insurance is required to pledge to the FHLBNY in support of its borrowings includes qualifying mortgage-related assets, such as commercial mortgage-backed securities. The major rating agencies have downgraded the credit ratings of certain commercial mortgage-backed securities and may continue to do so. If future downgrades affect the commercial mortgage-backed securities pledged by Prudential Insurance to the FHLBNY, those securities would no longer constitute eligible collateral under FHLBNY guidelines. This could require Prudential Insurance to repay outstanding borrowings or to pledge replacement collateral to the FHLBNY, which could materially reduce the Company s borrowing capacity from the FHLBNY and/or prevent use of that replacement collateral for asset-based financing transactions.

As described above, 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, including countries and institutions in which we hold investments. For additional information concerning these investments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Realized Investment Gains and Losses and General Account Investments.

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. For example, as discussed in 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, during the third quarter of 2010 we began to hedge certain risks associated with our variable annuity products on a basis that does not fully correspond to the associated U.S. GAAP liability. 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.

Our profitability may decline if mortality rates, morbidity rates or persistency rates 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 (including longevity) rates, or likelihood of death, 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 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 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 policyholders to lapse. 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 and carry 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

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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, 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 our reserves and incur income statement charges for the period in which we make the determination, 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 related primarily 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. 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, 2011, 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.

As of December 31, 2011, we had operating equity method investments within our International Insurance segment. 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 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 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 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 asset classes that were in active markets with significant observable data become inactive or for which data becomes unobservable 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.

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.

For a discussion of certain fixed maturity securities where the estimated fair value has declined and remained below amortized cost by 20% or more, see Management s Discussion and Analysis of Financial Condition and Results of Operations Realized Investment Gains and Losses and General Account Investments Unrealized Losses from Fixed Maturity Securities.

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.

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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 these operations 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 provide for the buildup of cash values for the policyholder at contractually fixed guaranteed interest rates, including in Japan. Actual returns on the underlying investments do not necessarily match 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. 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. Japan s ruling party has proposed to increase the 5% consumption tax to 8% in April 2014 and to 10% in October 2015. An increase to such tax rates could increase actual tax expense and reduce our consolidated net income. While no official announcement has been made, there is speculation that the Japan National Tax Authority (NTA) may reduce the corporate tax deductibility of premiums paid for cancer products. Such a change could result in a decrease in the sale of such products in Japan.

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.

Fluctuations in foreign currency exchange rates could adversely affect our profitability, financial condition and cash flow.

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 foreign currency hedges. Currency fluctuations could adversely affect our results of operations, cash flows or financial condition as a result of these hedging positions or due to foreign income or equity investments that are not hedged. A significant yen appreciation would require Prudential Financial to fund cash outflows under the derivative contracts related to our Japanese subsidiaries and, as a result, could create a capital and liquidity strain on the Company. Additionally, a significant strengthening of the yen could adversely impact the value of the 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 these non-yen

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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 rates differs, resulting in volatility in our net income under U.S. GAAP. For example, the non-yen denominated liabilities are remeasured quarterly for foreign currency exchange rate movements, with the related change in value recorded in net income. As such, a weakening of the yen compared to the currency denomination of the liabilities would result in a charge to U.S. GAAP net income, while the change in value of the related available-for sale investments would be recorded in Accumulated other comprehensive 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.

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 countries in which we operate internationally, 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.

Competition for personnel in all of our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Advisors 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.

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

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is derived through a single Japanese mega-bank and a significant portion of our sales in Japan through Life Advisors 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 harms to our business.

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.

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. For a discussion of material pending litigation and regulatory matters, see Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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. In this regard, the Pension Protection Act of 2006 (PPA) made significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. 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. The Worker, Retiree and Employer Recovery Act (the Employer Recovery Act) was passed in December 2008 in response to the financial crisis that began in the last half of 2007. The Employer Recovery Act modifies the method of calculating a plan s assets for purposes of satisfying

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the minimum funding rules set forth in the PPA, and ameliorates the financial impact of a plan not meeting its current funding target. As a result, the Employer Recovery Act may have the effect of delaying some of the positive and negative impacts of the PPA on our business.

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.

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 further discussion of the impact of regulations on our businesses.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act 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.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which effects comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional 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 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 we have identified to date of Dodd-Frank s potential impact on us include:

- If designated by the newly established Financial Stability Oversight Council (Council) as a systemically significant company, we would become subject to stricter prudential standards, including 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 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 Board of Governors of the Federal Reserve System (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. We cannot predict whether Prudential Financial or a subsidiary will be designated as a systemically significant company.

Until our intended deregistration as a savings and loan holding company in 2012 is effective, Prudential Financial is also subject as a savings and loan holding company to regulation by the FRB, which has authority, among other powers, to impose capital requirements on the Company as well as stress testing.

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.

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Absent our intended conversion of our federal thrift to a trust-only operation, we would become subject to the Volcker Rule provisions of Dodd-Frank prohibiting, subject to the rule s exceptions, proprietary trading and the sponsorship of, and investment in, funds (referred to in Dodd-Frank as hedge funds or private equity funds) that rely on certain exemptions from the Investment Company Act of 1940, as amended (collectively, covered funds). Absent our conversion to a trust-only bank, proposed regulations would require us to dispose of covered fund investments, significantly alter our business practices in these operations and/or diminish the attractiveness of our covered fund products to clients. In addition, actions taken by other financial entities in response to the Volcker Rule could potentially negatively affect the market for, returns from or liquidity of our investments in covered funds affiliated with such other financial entities.

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.

Dodd-Frank establishes a Federal Insurance Office within the Department of the Treasury which performs various functions with respect to insurance and is 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.

Until deregistration as a savings and loan holding company is effective, and thereafter if we are designated as a systemically significant company, the FRB could require us to legally separate our financial and non-financial activities. While our non-financial activities are minor, the imposition of such a requirement on us could be burdensome and costly to implement.

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.

Dodd-Frank includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith.

Dodd-Frank will and could impose various assessments on us, which we are unable to estimate at this time.

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

Foreign governmental actions in response to the recent financial crisis 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 papers and recommendations 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 (FSA), and proposals to permit U.S.-style class action litigation in the United Kingdom with respect to financial services claims. 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 is expected to come into force in January 2014. This new regime will

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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 (whether branches or subsidiaries) within the EEA.

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.

As described above, 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, the SEC is considering 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.

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 in light of the fact that many tax provisions recently enacted or extended began to sunset at the end of 2011. In addition, the recommendations made by the President s bipartisan National Commission on Fiscal Responsibility and Reform and other deficit reduction panels suggest the need to reform the U.S. Tax Code. Congress has held a number of hearings devoted to tax reform. Some of those hearings have discussed 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. 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.

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, such as a reduction in income tax rates. Other legislative changes, such as changes to the estate tax, also could reduce or eliminate the attractiveness of annuities and life insurance products to consumers.

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For example, the estate tax was completely eliminated for 2010, but modified carryover basis rules applied for property acquired from decedent s dying in that year. The estate tax has been reinstated through 2012 with a $5 million individual exemption, a 35% maximum rate and step-up in basis rules for property acquired from a decedent. Estates of decedents who died in 2010 can choose between the rules that were in effect in 2010 or the new rules. On February 13, 2012, the Obama Administration released the General Explanations of the Administration s Revenue Proposals, or Revenue Proposals. The Revenue Proposals include a provision that would make permanent a $3.5 million individual exemption and a 45% maximum estate tax rate. It is unclear what Congress will do with respect to the estate tax after 2012. This uncertainty makes estate planning difficult and may impact sales of our products.

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. 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 U.S. Treasury Department and the Internal Revenue Service have indicated that they 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 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%. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase our actual tax expense and reduce our consolidated net income.

The 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 are eligible for the DRD. 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 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.

Congress failed to extend a number of tax provisions that expired at the end of 2011. One such provision provides tax deferral for investment income earned by a foreign insurance operation until the income is repatriated to the U.S. Although Congress may, as it has done in the past, extend retroactively all expired provisions, the failure of Congress to do so will subject the Company to current U.S. tax on investment income earned by its foreign insurance operations. If this provision is not extended, the Company s actual tax expense would increase, 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.

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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 Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. 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.

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.

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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: in the case of the avian flu virus, the probability of the virus mutating to a form that can be passed easily from human to human; 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 versus the uninsured 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.

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 deferred acquisition costs and the value of business acquired, 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.

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.

We are subject to risks relating to the acquisition, and post-acquisition operations, of the Star and Edison businesses in Japan.

On February 1, 2011, we completed the acquisition from American International Group, Inc. (AIG) of AIG Star Life Insurance Co., Ltd. (Star) and AIG Edison Life Insurance Company (Edison) and certain other AIG subsidiaries in Japan (the Acquisition). For a description of the acquired businesses (collectively, the Star and Edison Businesses) and the Acquisition, see Management s Discussion and Analysis of Financial Condition and Results of Operations under Results of Operations for Financial Services Businesses by Segment International Insurance Division and Liquidity and Capital Resources. On January 1, 2012, we merged Star and Edison into Gibraltar Life. Notwithstanding the merger, we are subject to certain risks relating to the Acquisition and the Star and Edison Businesses, which risks could adversely affect, possibly materially, our business, results of operations, financial position or liquidity or prevent us from realizing the expected benefits from the Acquisition. These risks include the following:

We may experience difficulties in integrating the Star and Edison Businesses and the process of integration may take longer than expected. Our ability to achieve the benefits we anticipate from the Acquisition will depend upon whether we are able to integrate the Star and Edison Businesses into our existing Japanese business in an efficient and effective manner. The integration of certain operations will require the dedication of significant management resources over a long period, which may distract management s attention from day-to-day business operations.

We have begun and expect to continue to incur significant one-time costs in connection with the Acquisition and the related integration of the Star and Edison Businesses. The costs and liabilities actually incurred in connection with the Acquisition and subsequent integration process may exceed those anticipated. We may not realize cost savings, efficiencies or synergies that we anticipate.

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There is the risk that we will be exposed to obligations and liabilities of Star and Edison that are not adequately covered, in amount, scope or duration, by the indemnification provisions in the stock purchase agreement or reflected or reserved for in the historical financial statements of the Star and Edison Businesses, and there is the risk that such historical financial statements may contain errors.

The Star and Edison Businesses are also subject to many of the other risks described in this section to which our existing businesses, particularly those in Japan, are subject, including but not limited to risks associated with economic, market and political conditions, capital and liquidity, foreign exchange fluctuations and regulatory and legal matters.

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. Under most states statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company. Federal, and in some cases, state, banking authorities would also have to approve the indirect change of control of our banking operations. The 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 Convertibility 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.

Net income for the Financial Services Businesses and the Closed Block Business includes general and administrative expenses charged to each of the respective Businesses based on the Company s methodology for the allocation of such expenses. Cash flows to the Financial Services Businesses from

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the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. The difference between the administrative expenses allocated to the Closed Block Business and these cash flow amounts are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses and included in the determination of earnings per share for each Business. A change in cash flow amounts between the Businesses that is inconsistent with changes in general and administrative expenses we incur will affect the earnings per share of the Common Stock and Class B 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. Under these circumstances, shares of Class B Stock would be exchanged for shares of Common Stock with an aggregate average market value equal to 120% of the then appraised Fair Market Value of the Class B Stock. For a description of change of control and Fair Market Value, see Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Convertibility. Holders of Class B Stock may at their discretion, beginning in 2016, and at any time in the event of specified regulatory events, convert their shares of Class B Stock into shares of Common Stock with an aggregate average market value equal to 100% of the then appraised Fair Market Value of the Class B Stock. Any exchange or conversion could occur at a time when either or both of the Common Stock and Class B Stock may be considered overvalued or undervalued. Accordingly, any such exchange or conversion may be disadvantageous to holders of Common Stock.

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.

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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 24, 2012, were as follows:

Name	Age	Title	Other Directorships
John R. Strangfeld, Jr.	58	Chairman, Chief Executive Officer and President	None
Mark B. Grier	59	Vice Chairman	None
Edward P. Baird	63	Executive Vice President and Chief Operating Officer, International Businesses	None
Richard J. Carbone	64	Executive Vice President and Chief Financial Officer	None
Charles F. Lowrey	54	Executive Vice President and Chief Operating Officer, U.S. Businesses	None
Susan L. Blount	54	Senior Vice President and General Counsel	None
Helen M. Galt	64	Senior Vice President, Company Actuary and Chief Risk Officer	None
Sharon C. Taylor	57	Senior Vice President, Human Resources	None
Barbara G. Koster	57	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.

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.

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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.

Helen M. Galt was elected Senior Vice President and Company Actuary of Prudential Financial in October 2005. She was named to the role of Chief Risk Officer in June 2007. Ms. Galt has been with Prudential since 1972, serving in various actuarial management positions with Prudential Insurance including Vice President and Company Actuary from 1993 to 2005 and Senior Vice President and Company Actuary, a position she currently holds.

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.

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 8 and lease 11 other principal properties throughout the U.S., some of which are used for home office functions. Our domestic operations also lease approximately 190 other locations throughout the U.S.

For our International Insurance segment, which includes our international insurance operations as well as our international investment operations, we own 6 home offices located in Japan, Korea, Taiwan, Brazil and Argentina, and lease 7 home offices located in Japan, China, Taiwan, Italy, Mexico, India and Poland. We also

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own approximately 170 and lease approximately 760 other properties, primarily field offices, located throughout these same countries. For our Asset Management segment, we lease 12 international principal properties located in Brazil, Mexico, Japan, Hong Kong, Singapore, Korea, China, Germany and the United Kingdom, in addition to approximately 10 other branch 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

We are subject to legal and regulatory actions in the ordinary course of our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and proceedings generally applicable to business practices in the industries in which we operate, including in both cases businesses that have either been divested or placed in wind-down status. In our insurance operations, we are subject to class action lawsuits and individual lawsuits involving a variety of issues, including sales practices, underwriting practices, claims payment and procedures, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, return of premiums or excessive premium charges and breaching fiduciary duties to customers. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties or partners and class action lawsuits and other litigation alleging, among other things, that we made improper or inadequate disclosures in connection with the sale of assets and annuity and investment products or charged excessive or impermissible fees on these products, recommended unsuitable products to customers, mishandled customer accounts or breached fiduciary duties to customers. In our securities operations, we are subject to class action lawsuits, arbitrations and other actions arising out of our former retail securities brokerage, account management, underwriting, former investment banking and other activities, including claims of improper or inadequate disclosure regarding investments or charges, recommending investments or products that were unsuitable for tax advantaged accounts, assessing impermissible fees or charges, engaging in excessive or unauthorized trading, making improper underwriting allocations, breaching alleged duties to non-customer third parties and breaching fiduciary duties to customers. We may be a defendant in, or be contractually responsible to third parties for, class action lawsuits and individual litigation arising from our other operations, including claims for breach of contract. We are also subject to litigation arising out of our general business activities, such as our investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment and could be exposed to claims or litigation concerning certain business or process patents. Regulatory authorities from time to time make inquiries and conduct investigations and examinations relating particularly to us and our businesses and products. In addition, we, along with other participants in the businesses in which we engage, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of our pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of a litigation or regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed within Note 23 to the Consolidated Financial Statements included in this Annual Report on Form 10-K, under Litigation and Regulatory Matters.

Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. 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 or 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 our financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on our financial position.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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
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	
2010:			
Fourth Quarter	$ 59.95	$ 50.68	$ 1.15
Third Quarter	59.54	49.65	
Second Quarter	65.82	53.66	
First Quarter	60.50	47.02	

On January 31, 2012, there were 1,889,452 registered holders of record for the Common Stock and 468 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 2011 and 2010, Prudential Financial paid an annual dividend of $9.625 per share of Class B Stock. On January 31, 2012, 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 annual dividends on the Common Stock and Class B Stock. 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 Management s Discussion and Analysis of

Financial Condition and Results of Operations Liquidity and Capital Resources and Note 15 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

In September 2009, Prudential Insurance issued in a private placement $500 million of surplus notes due September 2019 with an interest rate of 5.36% per annum. The surplus notes are exchangeable at the option of the holder, in whole but not in part, for shares of Prudential Financial Common Stock beginning in September 2014, or earlier upon a fundamental business combination involving Prudential Financial or a continuing payment default. The initial exchange rate for the surplus notes is 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of $98.78; however, the exchange rate is subject to customary anti-dilution and other adjustments.

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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.

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 in Convertibility, 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.

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.

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.

On December 18, 2001, Prudential Financial s shareholder rights agreement became effective. Under the shareholder rights agreement, one shareholder protection right was attached to each share of Common Stock but

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not to any share of Class B Stock. Each right initially entitled the holder to purchase one one-thousandth of a share of a series of Prudential Financial preferred stock upon payment of the exercise price. At the time of the demutualization, the Board of Directors of Prudential Financial determined that the initial exercise price per right was $110, subject to adjustment from time to time as provided in the shareholder rights agreement. The shareholders rights agreement expired on December 18, 2011.

Convertibility

The Common Stock is not convertible.

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 (discussed below) equal to 120% of the appraised Fair Market Value (discussed below) of the outstanding shares of Class B Stock.

In addition, if (1) Prudential Financial sells or otherwise disposes of all or substantially all of the Closed Block Business or (2) 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 this purpose, change of control means the occurrence of any of the following events (whether or not approved by the Board of Directors of Prudential Financial): (a)(i) any person(s) (as defined) (excluding Prudential Financial and specified related entities) is or becomes the beneficial owner (as defined), directly or indirectly, of more than 50% of the total voting power of the then outstanding equity securities of Prudential Financial; or (ii) Prudential Financial merges with, or consolidates with, another person or disposes of all or substantially all of its assets to any person, other than, in the case of either clause (i) or (ii), any transaction where immediately after such transaction the persons that beneficially owned immediately prior to the transaction the then outstanding voting equity securities of Prudential Financial beneficially own more than 50% of the total voting power of the then outstanding voting securities of the surviving person; or (b) during any year or any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Prudential Financial (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Prudential Financial was approved by a vote of a majority of the directors of Prudential Financial then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason, other than pursuant to (x) a proposal or request that the Board of Directors be changed as to which the holder of the Class B Stock seeking the conversion has participated or assisted or is participating or assisting or (y) retirements in the ordinary course (as defined), to constitute a majority of the Board of Directors then in office.

Holders of Class B Stock will be permitted to convert 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 that (a) the Class B Stock will no longer be treated as equity of Prudential Financial for federal income tax purposes or (b) the New Jersey Department of Banking and Insurance amends, alters, changes or modifies the regulation of the Closed Block, the Closed Block Business, the Class B Stock or the IHC debt in a manner that materially adversely affects the CB Distributable Cash Flow (as defined below); provided, however, that in no event may a holder of Class B Stock convert shares of Class B Stock to the extent such holder immediately upon such conversion, together with its affiliates, would be the beneficial owner, as defined under the Exchange Act, of in excess of 9.9% of the total outstanding voting power of Prudential Financial s voting securities. In the event a holder of shares of Class B Stock requests to convert shares pursuant to clause (2)(a) in the preceding sentence, Prudential Financial may elect, instead of effecting such conversion, to increase the Target Dividend Amount to $12.6875 per share per annum retroactively from the time of issuance of the Class B Stock.

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.

In the event of any reclassification, recapitalization or exchange of, or any tender offer or exchange offer for, the outstanding shares of Common Stock, including by merger, consolidation or other business combination, as a result of which shares of Common Stock are exchanged for or converted into another security which is both registered under the Exchange Act and publicly traded, then the Class B Stock will remain outstanding (unless exchanged by virtue of a change of control occurring or otherwise, or otherwise converted) and, in the event 50% or more of the outstanding shares of Common Stock are so exchanged or converted, holders of outstanding Class B Stock will be entitled to receive, in the event of any subsequent exchange or conversion, the securities into which the Common Stock has been exchanged or converted by virtue of such reclassification, recapitalization, merger, consolidation, tender offer, exchange offer or other business combination. If, in the event of any reclassification, recapitalization or exchange, or any tender or exchange offer for, the outstanding shares of Common Stock, including by merger, consolidation or other business combination, as a result of which a majority of the outstanding shares of Common Stock are converted into or exchanged or purchased for either cash or securities which are not public securities, or a combination thereof, the Class B Stock will be entitled to receive cash and/or securities of the type and in the proportion that such holders of Class B Stock would have received if an exchange or conversion of the Class B Stock had occurred immediately prior to the conversion, exchange or purchase of a majority of the outstanding shares of Common Stock and the holders of Class B Stock had participated as holders of Common Stock in such conversion, exchange or purchase. The amount of cash and/or securities payable upon such exchange or conversion will be calculated based upon the Fair Market Value of the Class B Stock as of the date on which the Common Stock was exchanged, converted or purchased and will be multiplied by 120%.

For purposes of all exchanges and conversions, the average market value of the Common Stock will be determined during a specified 20 trading day period preceding the time of the exchange or conversion. Fair Market Value of the Class B Stock means the fair market value of all of the outstanding shares of Class B Stock as determined by appraisal by a nationally recognized actuarial or other competent firm independent of and selected by the Board of Directors of Prudential Financial and approved by the holders of a majority of the outstanding shares of Class B Stock. Fair Market Value will be the present value of expected future cash flows to holders of the Class B Stock, reduced by any payables to the Financial Services Businesses. Future cash flows will be projected consistent with the policy, as described in the Plan of Reorganization, for the Board of Directors of Prudential Insurance to declare policyholder dividends based on actual experience in the Closed Block. Following the repayment in full of the IHC debt, these cash flows shall be the excess of statutory surplus applicable to the Closed Block Business over Required Surplus (as defined in the definition of CB Distributable Cash Flow) for each period that would be distributable as a dividend under New Jersey law if the Closed Block Business were a separate insurer. These cash flows will be discounted at an equity rate of return, to be estimated as a risk-free rate plus an equity risk premium. The risk-free rate will be an appropriate ten-year U.S. Treasury rate reported by the Federal Reserve Bank of New York. The equity risk premium will be eight and one quarter percent initially, declining evenly to four percent over the following 21 years and remaining constant thereafter. Fair Market Value will be determined by appraisal as of a specified date preceding the time of the exchange or conversion.

Any exchange or conversion 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. In the future, if the Class B Stock is exchanged for or converted into Common Stock, the number of shares of Common Stock then obtainable by the Class B Stockholders might constitute a higher proportion of the total shares of Common Stock then outstanding than the proportion represented by (x) the number of shares of Class B Stock initially issued divided by (y) the total number of shares of Common Stock outstanding upon completion of the demutualization. The degree of any such proportionate increase would depend principally on: the performance of the Closed Block

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Business over time and the valuation of the Closed Block Business at the time of exchange or conversion; whether the exchange or conversion implemented involves a premium; the number of any new shares of Common Stock we issue after the demutualization for financing, acquisition or other purposes or any repurchases of Common Stock that we may make; and the market value of our Common Stock at the time of exchange or conversion.

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the three months ended December 31, 2011 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, 2011 through October 31, 2011	2,483,387	$ 50.26	2,482,200	
November 1, 2011 through November 30, 2011	2,477,718	$ 50.53	2,467,755	
December 1, 2011 through December 31, 2011	3,155	$ 48.01		
Total	4,964,260	$ 50.40	4,949,955	$ 500,540,955

(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 2011, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.5 billion of its outstanding Common Stock through June 2012.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2011, 2010 and 2009 and the selected consolidated balance sheet data as of December 31, 2011 and 2010 from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2008 and 2007 and the selected consolidated balance sheet data as of December 31, 2009, 2008 and 2007 from consolidated financial statements not included herein.

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.

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, 2011, 2010, 2009, 2008 and 2007 includes Gibraltar Life assets and liabilities as of November 30. Consolidated income statement data for 2011, 2010, 2009, 2008 and 2007 includes Gibraltar Life results for the twelve months ended November 30, 2011, 2010, 2009, 2008 and 2007, respectively.

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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,				
	2011	2010	2009	2008	2007
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 24,338	$ 18,260	$ 16,545	$ 15,468	$ 14,351
Policy charges and fee income	3,924	3,321	2,833	3,138	3,131
Net investment income	13,124	11,865	11,390	11,824	11,980
Asset management fees and other income	4,828	3,704	4,509	715	3,719
Realized investment gains (losses), net	2,831	1,050	(2,897)	(2,457)	612
Total revenues	49,045	38,200	32,380	28,688	33,793
Benefits and expenses:					
Policyholders benefits	23,614	18,285	16,346	16,531	14,749
Interest credited to policyholders account balances	4,484	4,209	4,484	2,335	3,222
Dividends to policyholders	2,723	2,189	1,298	2,218	2,903
Amortization of deferred policy acquisition costs	3,292	1,437	1,494	1,424	996
General and administrative expenses	9,815	7,688	7,234	7,482	7,483
Total benefits and expenses	43,928	33,808	30,856	29,990	29,353
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	5,117	4,392	1,524	(1,302)	4,440
Income tax expense (benefit)	1,599	1,303	(62)	(522)	1,176
Income (loss) from continuing operations before equity in earnings of operating joint ventures	3,518	3,089	1,586	(780)	3,264
Equity in earnings of operating joint ventures, net of taxes	185	84	1,523	(447)	246
Income (loss) from continuing operations	3,703	3,173	3,109	(1,227)	3,510
Income (loss) from discontinued operations, net of taxes	35	33	(19)	146	219
Net income (loss)	3,738	3,206	3,090	(1,081)	3,729
Less: Income (loss) attributable to noncontrolling interests	72	11	(34)	36	67
Net Income (loss) attributable to Prudential Financial, Inc.	$ 3,666	$ 3,195	$ 3,124	$ (1,117)	$ 3,662
Basic income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.23	$ 5.75	$ 7.72	$ (2.87)	$ 7.19
Diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.14	$ 5.68	$ 7.67	$ (2.87)	$ 7.09
Basic net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 7.31	$ 5.82	$ 7.68	$ (2.53)	$ 7.61
Diluted net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 7.22	$ 5.75	$ 7.63	$ (2.53)	$ 7.51
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ 55.50	$ 222.00	$ (165.00)	$ (16.00)	$ 68.50
	$ 55.50	$ 222.50	$ (165.00)	$ (16.00)	$ 69.50

Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock										
Dividends declared per share Common Stock	$	1.45	$	1.15	$	0.70	$	0.58	$	1.15
Dividends declared per share Class B Stock	$	9.625	$	9.625	$	9.625	$	9.625	$	9.625
Ratio of earnings to fixed charges(1)		1.85		1.80		1.71				1.97

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	As of December 31,				
	2011	2010	2009 (in millions)	2008	2007
Balance Sheet Data:					
Total investments excluding policy loans	$ 344,688	$ 273,245	$ 250,406	$ 232,322	$ 234,220
Separate account assets	218,380	207,776	174,074	147,095	195,583
Total assets	624,521	539,854	480,203	445,011	485,813
Future policy benefits and policyholders account balances	305,011	240,315	227,373	221,564	195,731
Separate account liabilities	218,380	207,776	174,074	147,095	195,583
Short-term debt	2,336	1,982	3,122	10,535	15,566
Long-term debt	24,622	23,653	21,037	20,290	14,101
Total liabilities	586,710	506,926	454,474	431,225	461,890
Prudential Financial, Inc. equity	37,223	32,415	25,195	13,435	23,514
Noncontrolling interests	588	513	534	351	409
Total equity	$ 37,811	$ 32,928	$ 25,729	$ 13,786	$ 23,923

(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 $935 million would have been required for the year ended December 31, 2008 to achieve a ratio of 1:1.

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.

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.

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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 for more information on the Closed Block. At the time of demutualization, we determined the amount of Closed Block assets so that the Closed Block assets initially had a lower book value than the Closed Block liabilities. We expect that the Closed Block assets will 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 to be paid to, and the reasonable dividend expectations of, holders of the Closed Block policies. We also segregated for accounting purposes the assets that we need to hold outside the Closed Block to meet capital requirements related to the Closed Block policies. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to ultimately 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.

Concurrently with our 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. The net proceeds from the issuances of the Class B Stock and IHC debt, except for $72 million used to purchase a guaranteed investment contract to fund a portion of the bond insurance cost associated with that debt, were allocated to the Financial Services Businesses. However, we expect that the IHC debt will be serviced by the net cash flows of the Closed Block Business over time, and we include interest expenses associated with the IHC debt when we report results of the Closed Block Business.

The Closed Block Business consists principally of the Closed Block, assets that we must hold outside the Closed Block to meet capital requirements related to the Closed Block policies, invested assets held outside the Closed Block that represent the difference between the Closed Block assets and Closed Block liabilities and the interest maintenance reserve, deferred policy acquisition costs related to Closed Block policies, the principal amount of the IHC debt and related hedging activities, and certain other related assets and liabilities.

The Closed Block Business is not a separate legal entity from the Financial Services Businesses; however, they are operated as separate entities and are separated for financial reporting purposes. The Financial Services Businesses are not obligated to pay dividends on Closed Block policies. Dividends on Closed Block policies reflect the experience of the Closed Block over time and are subject to adjustment by Prudential Insurance s Board of Directors. Further, our plan of demutualization provides that we are not required to pay dividends on policies within the Closed Block from assets that are not within the Closed Block and that the establishment of the Closed Block does not represent a guarantee that any certain level of dividends will be maintained.

Revenues and Expenses

We earn our revenues principally from insurance premiums; mortality, expense, and 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 and group life and disability insurance. We earn mortality, expense, and asset management fees from the sale and servicing of separate account products including variable life insurance and variable annuities. 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, 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.

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Profitability

Our profitability depends principally on our ability to price and manage risk on insurance and annuity products, our ability to attract and retain customer assets and our ability to manage expenses. Specific drivers of our profitability include:

- our ability to manufacture and distribute products and services and to introduce new products that gain market acceptance on a timely basis;
- our ability to price our insurance and annuity products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring customers and administering those products;
- our mortality and morbidity experience on individual and group life insurance, annuity and group disability insurance products, which can fluctuate significantly from period to period;
- our actual policyholder behavior experience, including persistency, and benefit utilization and withdrawal rates for our variable annuity contracts, which could deviate significantly from our pricing assumptions;
- our persistency experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;
- our cost of administering insurance contracts and providing asset management products and services;
- our ability to manage and control our operating expenses, including overhead expenses;
- our returns on invested assets, including the impact of credit losses, net of the amounts we credit to policyholders accounts;
- our assumptions with respect to rates of return;
- the amount of our assets under management and changes in their fair value, which affect the amount of asset management fees we receive;
- our ability to generate favorable investment results through asset/liability management and strategic and tactical asset allocation; and where available and appropriate, our ability to take timely crediting rate actions to maintain investment spread margins;
- our credit and financial strength ratings;
- our ability to effectively utilize our tax capacity;
- our returns on strategic investments we make;

- our ability to manage risk and exposures, including the degree to which, and the effectiveness of, hedging these risks and exposures;
- our ability to effectively deploy capital; and
- our ability to attract and retain talent.

In addition, factors such as credit and real estate market conditions, regulation, competition, interest rates, taxes, foreign exchange rates, market fluctuations and general economic, market and political conditions affect our profitability. In some of our product lines, particularly those in the Closed Block Business, we share experience on mortality, morbidity, persistency and investment results with our customers, which can offset the impact of these factors on our profitability from those products.

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.

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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 $900.7 billion of assets under management as of December 31, 2011, 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. Our businesses and results of operations are impacted by general economic and market conditions and are sensitive to the pace of and extent of changes in equity markets, interest rates and real estate valuations, as well as the changes in behavior of individuals and institutions that these changes in economic and market conditions may cause. Recent years have been affected by adverse global market conditions, and uncertainty continues to be a factor in the market environment. 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.

Volatile conditions continue to characterize the overall financial markets. The low interest rate environment we have experienced in recent years has impacted the profitability of certain products we offer as well as returns on the investment portfolio backing our insurance liabilities and equity. Disruptions in the credit markets have also limited sales opportunities in recent years for certain products we offer and have impacted the cost and implementation of our capital management activities by reducing the availability of financing. 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. Our businesses are subject to comprehensive regulation and supervision. 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 particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 made comprehensive changes to the regulation of financial services in the U.S. and subjects us to substantial additional federal regulation. 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 are considering further potentially significant changes in these requirements for life insurance products. In addition, there is general uncertainty regarding U.S. taxes both for individuals and corporations in light of the fact that many tax provisions recently enacted or extended will sunset by the end of 2012. In addition, the recommendations made by the President s bipartisan National Commission on Fiscal Responsibility and Reform and other deficit reduction panels suggest the need to reform the U.S. Tax Code. Congress has held a number of hearings devoted to tax reform. Some of those hearings have discussed 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.

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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. Our annuities, retirement and asset management businesses operate in a highly competitive environment. For the annuities business, market volatility in recent years led many companies within the industry to reduce risk in product features and increase costs. However, in 2011, certain of our competitors became more aggressive in product design and pricing, while we implemented modifications to scale back benefits and increase pricing for certain product features. In spite of this, we believe our current product offerings remain competitively positioned and that our differentiated risk management strategies will continue to 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.

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 an even greater challenge of maintaining pricing discipline. This has limited growth of our individual life sales, in an industry which has shifted toward non-proprietary distribution channels, which are more price sensitive than proprietary distribution channels. 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. Industry sales of voluntary products, as well as our own, were up again in 2011 despite the adverse economic conditions.

International Businesses

Financial and Economic Environment. Our international businesses and the financial results of these operations are impacted by the global economy as well as the financial and economic conditions in the countries in which we operate. Recent periods have been characterized by low interest rates. Similar to our U.S. businesses, interest rates and the pace and extent of changes in rates have impacted the profitability of certain products we offer by impacting the returns on the investment portfolio backing our insurance liabilities as well as on the equity in the businesses. Our Japanese operations have operated in this environment for an extended period. We are also subject to financial impacts associated with movements in foreign currency rates, particularly the Japanese yen. The strengthening of the yen has increased the attractiveness of multi-currency denominated products.

Regulatory Environment. Our international insurance and investments operations are subject to comprehensive local regulation and supervision. It is likely that the recent financial market dislocations will lead

to changes in existing laws and regulations, and regulatory frameworks affecting our international businesses. The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements that will revise risk charges for certain assets and change the manner in which an insurance company s core capital is calculated. These changes are 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 regulations, primarily 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 a rapidly 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 savings element to meet savings and retirement needs as the population transitions to retirement. The growing demand for retirement oriented products has led to 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 service provided to the customers than on price. The aging of 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. 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.

Current Developments

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star , AIG Edison Life Insurance Company, or Edison , and certain other AIG subsidiaries (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was $4,709 million, comprised of $4,213 million in cash and $496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. On January 1, 2012, the Star and Edison companies were merged into Gibraltar Life. See Results of Operations for Financial Services Businesses by Segment International Insurance Division International Insurance for more information on this acquisition.

On March 11, 2011, Japan experienced a massive earthquake followed by a tsunami which caused extensive damage and loss of life. Our results include a pre-tax charge of $61 million for the year ended December 31, 2011 associated primarily with estimated claims from our operations in Japan arising from these events. We have not experienced and do not expect a significant impact to the valuation of our investments or our ability to operate our Japanese businesses as a result of these events.

On April 6, 2011, Prudential Financial entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of its subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. This sale was completed on July 1, 2011. The Company recorded a pre-tax loss on the sale of $18 million. As a result of the sale, we have reflected the results of the Global Commodities Business, including the loss on the sale, as discontinued operations for all periods presented.

In June 2011, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.5 billion of its outstanding Common Stock through June 2012. As of December 31, 2011, 19.8 million shares were repurchased under this authorization at a total cost of $999.5 million. The timing and amount of any additional share repurchases will be determined by management based upon market conditions and other considerations, and the repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans designed to comply with Rule 10b5-1(c) under the Exchange Act.

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On October 20, 2011, the Company announced it had entered into an agreement to sell its stake in Afore XXI, S.A. de C.V., a private pension fund manager in Mexico, to Banorte, a major bank based in Mexico. This sale was completed on December 2, 2011. We recorded a pre-tax gain on the sale of $96 million in 2011 reflected in adjusted operating income of our International Insurance segment.

On November 8, 2011, Prudential Financial declared an annual dividend for 2011 of $1.45 per share of Common Stock, reflecting an increase of approximately 26% from the 2010 Common Stock dividend.

On December 6, 2011, the Company sold its real estate brokerage franchise and relocation services businesses, which was comprised of Prudential Real Estate and Relocation Services, Inc. (PRERS) and its subsidiaries, to Brookfield Asset Management, Inc. (Brookfield). We retained ownership of a financing subsidiary of PRERS with debt and equity investments in a limited number of real estate brokerage franchises. The Company recorded a pre-tax gain on the sale of $49 million. As a result of the sale, we have reflected the results of the real estate brokerage franchise and relocation services businesses, including the pre-tax gain on the sale, as a divested business for all periods presented.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, Prudential Financial, as a savings and loan holding company, became subject to the examination, enforcement and supervisory authority of the Board of Governors of the Federal Reserve System (FRB), effective as of July 21, 2011. However, we intend to limit the operations of Prudential Bank & Trust, FSB to trust services prior to effectiveness of the Volcker rule on July 21, 2012, permitting us to continue our institutional asset management business without the restrictions that might otherwise apply under the Volcker Rule. Such limitation will allow us to deregister as a savings and loan holding company. See Business Regulation for more information regarding the potential impact of the Dodd-Frank Act on the Company.

Our financial condition and results of operations for the year ended December 31, 2011 reflect the following:

Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the year ended December 31, 2011 was $3,531 million compared to $2,714 million for 2010.

Pre-tax net realized investment gains and related charges and adjustments of the Financial Services Businesses were $685 million of net gains in 2011 primarily reflecting the impact of changes in foreign currency exchange rates on certain assets and liabilities for which we economically hedge the foreign currency exposure and net increases in the market value of derivatives used to manage investment portfolio duration. These gains were partially offset by other-than-temporary impairments of fixed maturity and equity securities and net losses related to the embedded derivatives and related hedge positions associated with certain of our variable annuity contracts.

Net unrealized gains on general account fixed maturity investments of the Financial Services Businesses amounted to $10.493 billion as of December 31, 2011, compared to net unrealized gains of $5.726 billion as of December 31, 2010. Gross unrealized gains increased from $8.826 billion as of December 31, 2010 to $14.749 billion as of December 31, 2011 and gross unrealized losses increased from $3.100 billion to $4.256 billion for the same periods. Net unrealized gains on general account fixed maturity investments of the Closed Block Business amounted to $3.876 billion as of December 31, 2011, compared to net unrealized gains of $1.671 billion as of December 31, 2010.

Individual Annuity total account values were $113.5 billion as of December 31, 2011. Gross sales were $20.3 billion in 2011 compared to $21.8 billion in 2010, and net sales were $13.1 billion in 2011 compared to $14.6 billion in 2010.

Full Service Retirement account values were $139.4 billion as of December 31, 2011. Institutional Investment Products account values reached a record high of $90.1 billion as of December 31, 2011, driven by $21.6 billion of net additions in 2011.

Asset Management total third party institutional and retail net flows were $20.2 billion in 2011 compared to $35.0 billion in 2010, contributing to the segment s assets under management of $619.1 billion as of December 31, 2011.

International Insurance constant dollar basis annualized new business premiums were a record high of $3,040 million in 2011, including $728 million from the acquired Star and Edison Businesses, compared to $1,870 million in 2010.

Individual Life annualized new business premiums were $278 million in 2011, compared to $260 million in 2010.

Group Insurance annualized new business premiums were a record high of $690 million in 2011, compared to $607 million in 2010.

As of December 31, 2011, Prudential Financial, the parent holding company, had cash and short-term investments of $4.944 billion.

Outlook

Management expects that results in 2012 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 2012, 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.

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Results of Operations

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.

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the years ended December 31, 2011, 2010 and 2009 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,		
	2011	2010 (in millions)	2009
Adjusted operating income before income taxes for segments of the Financial Services Businesses:			
Individual Annuities	$ 713	$ 1,046	$ 757
Retirement	598	572	494
Asset Management	659	487	55
Total U.S. Retirement Solutions and Investment Management Division	1,970	2,105	1,306
Individual Life	517	500	562
Group Insurance	208	215	331
Total U.S. Individual Life and Group Insurance Division	725	715	893
International Insurance	2,705	2,085	1,868
Total International Insurance Division	2,705	2,085	1,868
Corporate and Other	(1,127)	(923)	(779)
Adjusted operating income before income taxes for the Financial Services Businesses	4,273	3,982	3,288
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments	2,521	116	(1,216)
Charges related to realized investment gains (losses), net	(1,836)	(178)	(492)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	223	501	1,601
Change in experience-rated contractholder liabilities due to asset value changes	(123)	(631)	(899)
Divested businesses	54	(25)	2,086
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(192)	(98)	(2,364)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	4,920	3,667	2,004
Income (loss) from continuing operations before income taxes for Closed Block Business	197	725	(480)
Consolidated income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 5,117	$ 4,392	$ 1,524

Results for 2011 presented above reflect the following:

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the Financial Services Businesses for 2011 was $4,920 million, compared to $3,667 million for 2010. Adjusted operating income before income taxes for the Financial Services Businesses for 2011 was $4,273 million, compared to $3,982 million for 2010.

Individual Annuities segment results for 2011 decreased in comparison to 2010 primarily reflecting the impact of adjustments to the amortization of deferred policy acquisition and other costs and to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, which were unfavorable in 2011 and favorable in 2010. These adjustments were primarily driven by the impact of market performance on the estimated profitability of the business, as well as the impact of annual reviews and updates of assumptions and updates to reflect current period experience. Excluding these items, results increased in comparison to the prior year, primarily reflecting higher fee income resulting from the impact of positive net flows on variable annuity account values.

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Retirement segment results for 2011 increased in comparison to 2010. The increase reflects higher fee income due to higher fee-based investment-only stable value account values in our institutional investment products business primarily from net additions and an increase in average full service fee-based retirement account values resulting primarily from market appreciation. This increase was partially offset by lower net investment spread results, higher general and administrative expenses, net of capitalization, and the unfavorable impact of annual reviews and updates of the assumptions used in amortizing deferred policy acquisition costs and value of business acquired.

Asset Management segment results improved in 2011 in comparison to 2010 primarily from improved results from the segment s commercial mortgage and strategic investing activities and increased asset management fees.

Individual Life segment results for 2011 increased in comparison to 2010 primarily driven by a greater benefit in 2011 from annual updates of our actuarial assumptions resulting in lower amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves, and a net decrease in insurance reserves. The 2011 benefit was $75 million, compared to a benefit of $52 million in 2010. Absent the impact of these annual reviews, results for 2011 decreased $6 million from 2010 primarily due to an increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, largely reflecting the impact of equity markets on separate account fund performance in the respective periods, partially offset by the impact of less unfavorable mortality experience.

Group Insurance segment results declined in 2011, compared to 2010 primarily due to less favorable group disability underwriting results and higher expenses, largely offset by more favorable group life underwriting results.

International Insurance segment results for 2011 improved from 2010. Results from the segment s Life Planner operations improved in 2011, reflecting the continued growth of our Japanese Life Planner operation and lower expenses, partially offset by claims resulting from the March 2011 earthquake and tsunami and less favorable mortality experience. Results from the segment s Gibraltar Life and Other operations reflect the comparative impact of a $237 million benefit to 2011 results compared to a $66 million benefit to 2010 resulting from partial sales of our investment, through a consortium, in China Pacific Group. Also contributing to the increase in adjusted income was $354 million of earnings from operations of the acquired Star and Edison Businesses, excluding claims resulting from the March 2011 earthquake and tsunami, and a $96 million gain on sale of our investment in Afore XXI. These benefits were partially offset by $213 million of Star and Edison acquisition- and integration-related expenses and $49 million of charges primarily resulting from claims associated with the earthquake and tsunami in Japan. The remainder of the improvements in results compared to the prior year quarter came primarily from a greater contribution from investment results, reflecting business growth including higher earnings from our fixed annuities business and from expanding bank channel sales of protection products.

Corporate and Other operations resulted in an increased loss for 2011 as compared to 2010 primarily due to a higher level of expenses in other corporate activities, including a $93 million increase in expenses for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policyholders and contractholders and a $20 million charge related to a voluntary contribution to an insurance industry insolvency fund, related to Executive Life Insurance Company of New York.

Income from continuing operations before income taxes in the Closed Block Business decreased $528 million in 2011 compared to 2010, primarily reflecting an increase in the policyholder dividend obligation expense.

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

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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 vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts. These costs primarily include commissions, costs of policy issuance and underwriting, and variable field office expenses that are incurred in producing new business. 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 also defer 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. As of December 31, 2011, DAC and DSI in our Financial Services Businesses were $16.1 billion and $1.0 billion, respectively, and DAC in our Closed Block Business was $667 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. We also evaluate the recoverability of the DAC balance at the end of each reporting period. These 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, 2011, the excess of actual cumulative earnings over the expected cumulative earnings was $762 million.

DAC associated with the non-participating whole life and term life policies of our Individual Life segment and the non-participating whole life, term life, endowment and health policies of our International Insurance segment is amortized in proportion to gross premiums. We evaluate the recoverability of our DAC related to these policies as part of our premium deficiency testing. If a premium deficiency exists, we reduce DAC 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 reduce the DAC balance to zero and increase the reserve for future policy benefits by the excess, by means of a charge to current period earnings. Generally, we do not expect significant deterioration in future experience, and therefore do not expect significant writedowns to the related DAC.

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

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profits. DAC and DSI are also subject to recoverability testing which we perform at the end of each reporting period to ensure that each balance does not exceed the present value of estimated 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 effects of our actual gross profits and changes in our assumptions regarding estimated future gross profits. 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.

In addition to the gross profit components mentioned above, we also 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. Prior to the third quarter of 2010, we also included the impact of these embedded derivatives and related hedging activities, excluding the impact of the market-perceived risk of our own non-performance, in our estimate of total gross profits used to determine the DAC and DSI amortization rates. In the third quarter of 2010, we revised our hedging strategy, which resulted in a change in how certain gross profit components are used to determine the DAC and DSI amortization rates. Prior to the third quarter of 2010 our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by U.S. GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives. Under our current hedging strategy, our hedge target continues to be grounded in a U.S. GAAP/capital markets valuation framework but incorporates two modifications to the U.S. GAAP valuation assumptions. We add a credit spread to the U.S. GAAP risk-free rate of return assumption used to estimate future growth of bond investments in the customer separate account funds to account for the fact that the underlying customer separate account funds which support these living benefits are invested in assets that contain risk. We also adjust our volatility assumption to remove certain risk margins embedded in the valuation technique used to determine the fair value of the embedded derivative liability under U.S. GAAP, as we believe the increase in the liability driven by these margins is temporary and does not reflect the economic value of the liability. For a discussion of the change in our hedging strategy and the results of our hedging program, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Net impact of embedded derivatives related to our living benefit features and related hedge positions.

As mentioned above, this change in our hedging strategy also led to a change in the components included in our estimate of total gross profits used to determine the DAC and DSI amortization rates. Beginning in the third quarter of 2010, management s best estimate of the total gross profits associated with these optional living benefit features and related hedge positions is based on the updated hedge target definition as described above. However, total gross profits for these purposes includes the difference between the change in the value of the hedge target liability and the change in the asset value only to the extent this net amount is determined by management to be other-than-temporary, as well as the impact of assumption updates on the valuation of the hedge target liability. The determination of whether the difference between the change in the value of the hedge target liability and the change in the asset value is other-than-temporary is based on an evaluation of the effectiveness of the hedge program. Management generally expects differences between the value of the hedge target liability and asset value to be temporary and to reverse over time. Such differences would not be included in total gross profits for purposes of determining the amortization rates. However, based on the effectiveness of the hedge program, management may determine that the difference between the value of the hedge target liability and the asset value is other-than-temporary and would include that amount in our best estimate of total gross profits for setting the DAC and DSI amortization rates.

Management may also decide to temporarily hedge to an amount that differs from the hedge target definition, given overall capital considerations of the Company and prevailing market conditions. The impact from temporarily hedging to an amount that differs from the hedge target definition, as well as the results of the capital hedge program we began in the second quarter of 2009 and modified in 2010, are not considered in calculating total gross profits used to determine amortization rates nor included in actual gross profits used in calculating current period amortization as these items are related to capital considerations and are not directly related to product profits.

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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 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 fees we earn and decrease the costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts. The impact of increased fees results in higher expected future gross profits and lower DAC and DSI amortization for the period. 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 actual 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. Unless there is a sustained interim deviation, our long-term expected rate of return assumptions are generally not impacted by short-term market fluctuations. 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 following table sets forth the weighted average rate of return assumptions, per annum, for our domestic variable annuity and variable life insurance businesses as of December 31, 2011.

	Variable Annuities	Variable Life Insurance
Long-term equity expected rate of return	9.2%	9.2%
Fixed income expected rate of return(1)	4.3%	5.7%
Long-term blended expected rate of return(2)	7.4%	7.7%
Near-term maximum equity rate of return	13.0%	13.0%
Fixed income expected rate of return(1)	4.3%	5.7%
Blended maximum expected rate of return(2)	9.9%	9.8%
Near-term mean reversion blended rate of return(3)	8.7%	9.8%

(1)

Fixed income expected rate of return for our variable annuities business is a levelized rate, blending current rates and long-term expected returns. Fixed income expected rate of return for our variable life insurance business is the long-term expected return, as a blend does not materially affect results due to the long duration of the liability.

(2) Blend is based on the long-term expected distribution of funds between equity and fixed income funds.

(3) As of December 31, 2011, more than half of our variable annuities business and the majority of our variable life insurance business had near-term mean reversion rates of return based on the blended maximum expected rate of return assumption.

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The weighted average rate of return assumptions reflected in the table above are determined independently for variable annuities and variable life insurance and consider many factors specific to each business, including actual rates of return, liability durations, asset allocations and other factors. We update the rates of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach. 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.

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, 2011 was $2.5 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 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, 2011 Increase/(Reduction) in DAC(1) (in millions)
Decrease in future mortality by 1%	$ 46
Increase in future mortality by 1%	$ (46)

(1) The sensitivity balances reflected in the table are based on DAC accounting guidance as of December 31, 2011. As noted previously, new authoritative guidance was adopted effective January 1, 2012, which will reduce our DAC balances and corresponding sensitivities.

For a discussion of DAC adjustments related to our Individual Life segment for the years ended December 31, 2011, 2010 and 2009, 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 $2.7 billion and $1.0 billion, respectively, as of December 31, 2011. 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

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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, 2011	
	Increase/(Reduction) in DAC(1)	Increase/ (Reduction) in DSI
	(in millions)	
Decrease in future rate of return by 100 basis points	$ (67)	$ (27)
Increase in future rate of return by 100 basis points	$ 62	$ 26

(1) The sensitivity balances reflected in the table are based on DAC accounting guidance as of December 31, 2011. As noted previously, new authoritative guidance was adopted effective January 1, 2012, which will reduce our DAC balances and corresponding sensitivities.

For a discussion of DAC and DSI adjustments related to our Individual Annuities segment for the years ended December 31, 2011, 2010 and 2009, 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, 2011, VOBA was $3,845 million, and included $3,490 million related to the acquisition from AIG of the Star and Edison Businesses on February 1, 2011. See Note 3 for additional information on the acquisition from AIG of the Star and Edison Businesses. The remaining $355 million relates to previously-acquired traditional life, deferred annuity, defined contribution and defined benefit businesses. VOBA is amortized over the effective 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. Based on this recoverability testing, in 2009 we impaired the entire remaining VOBA asset related to the variable annuity contracts acquired from Allstate. For additional information regarding this charge, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Goodwill

As of December 31, 2011, our goodwill balance of $888 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, $184 million related to our International Insurance Gibraltar business and $22 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 and more frequently if events occur or circumstances change that would indicate the potential for impairment is more likely than not. The test is performed at the reporting unit level which is equal to or one level below our operating segments.

Accounting guidance allows a reporting unit to perform a qualitative assessment to determine if its goodwill is impaired. Factors such as macroeconomic conditions; industry and market considerations; cost factors; and others are used to assess the validity of the goodwill. If it is determined that the reporting unit s fair value is not more likely than not below its carrying amount (equity attributed to a business to support its risk), the test is complete and no impairment is recorded. If this assertion cannot be made, a quantitative analysis must be performed. A reporting unit may bypass the qualitative analysis and begin their impairment analysis with the quantitative calculation. This option is unconditional and a reporting unit may resume performing the qualitative assessment in any subsequent period.

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The quantitative analysis consists of two steps. Step 1 requires that the fair value of the reporting unit be calculated and compared to the reporting unit s carrying value. If the fair value is greater than the carrying value, it is concluded there is no impairment and the analysis is complete. If the fair value is less than the carrying value, Step 2 of the process is completed to determine the amount of impairment, if any. Step 2 utilizes business combination acquisition accounting guidance and requires the fair value calculation of all individual assets and liabilities of the reporting unit (excluding goodwill, but including any unrecognized intangible assets). The net fair value of assets less liabilities is then compared to the reporting unit s total fair value as calculated in Step 1. The excess of fair value over the net asset value equals the implied fair value of goodwill. The implied fair value of goodwill is then compared to the carrying value of goodwill to determine the reporting unit s goodwill impairment loss, if any.

A qualitative assessment was performed by International Insurance s Gibraltar business. After consideration of the relevant macro economic factors, as well as conditions specific to the insurance industry and the reporting unit, it was determined that the fair value of the reporting unit was not more likely than not below its carrying value and accordingly, there was no impairment of goodwill.

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 2012 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 2012 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 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 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 three reporting units and it was concluded there was no impairment as of December 31, 2011. The Asset Management, International Insurance s Life Planner and Retirement Full Service businesses had estimated fair values that exceeded their carrying amounts by 425%, 27% and 5%, respectively.

Estimating the fair value of reporting units is a subjective process that involves the use of estimates and judgments. 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 4%, an increase in the discount rate above 12.5%, or an increase in the equity attributed to support this business (representing the carrying value) of 5% could result in failing Step 1 of the quantitative test and therefore require a Step 2 assessment. Regarding all four 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, 2011, 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), net, 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 and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity

Securities and Realized Investment Gains and Losses and General Account Investments General Account Investments Equity Securities Other-than-Temporary Impairments of 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 Realized Investment Gains and Losses and General Account Investments General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

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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. These reserves relate primarily to the traditional participating whole life policies of our Closed Block Business and the non-participating whole life, term life, and life contingent structured settlement and group annuity products of our 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, 2011, represented 31% of our total future policy benefit reserves are determined using the net level premium method as prescribed by U.S. GAAP. 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 used 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. As of December 31, 2011, the excess of actual cumulative earnings over the expected cumulative earnings was $762 million.

The future policy benefit reserves for our International Insurance segment and Individual Life segment, which as of December 31, 2011, represented 55% 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 in accordance with U.S. GAAP 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. Reserve assumptions are based on best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation. After our 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 U.S. GAAP liabilities (i.e., reserves net of any DAC asset), the existing net U.S. GAAP 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, by means of a charge to current period earnings. Our best estimate 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. Unless a material change in mortality experience is observed in an interim period that we feel is indicative of a long term trend, we generally update our mortality assumptions annually in the third quarter of each year. Generally, we do not expect our mortality 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.

The reserves for future policy benefits of our Retirement segment, which as of December 31, 2011 represented 10% of our total future policy benefit reserves, 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. Reserves are based on best estimate assumptions as of the date the contract is issued with provisions for the risk of adverse deviation. After our reserves are initially established, we perform premium

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deficiency testing by product group using best estimate assumptions as of the testing date without provisions for adverse deviation. If reserves determined based on these assumptions are greater than the existing reserves, the existing reserves are adjusted to the greater amount. Our best estimate 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. Although we review our mortality and retirement assumptions on an ongoing basis throughout the year, we generally only update these assumptions annually during the third quarter unless a material change in mortality or retirement experience is observed in an interim period that we feel is indicative of a long term trend. Generally, we do not expect our actual mortality or retirement 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.

The remaining 4% of the reserves for future policy benefits as of December 31, 2011 represented 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 and long-term care 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. Our dynamic lapse rate assumption applies a different lapse rate on a contract by contract basis based on a comparison of the GMDB or GMIB and the current policyholder account value as well as other factors such as the applicability of any surrender charges. In-the-money contracts are those with a GMDB or GMIB in excess of the current policyholder account value. Since in-the-money contracts are less likely to lapse, we apply a lower lapse rate assumption to these contracts. As an example, the lapse rate assumptions for contracts that are not in-the-money and are out of their surrender charge period average between 7% and 20% per year, and the lapse rate assumptions for contracts that are in-the-money and are out of their surrender charge period average between 0% and 20% per year. Mortality assumptions are generally based on our historical experience or standard industry tables, and also vary by contract group. Unless a material change in contractholder behavior or mortality experience that we feel is indicative of a long term trend is observed in an interim period, we generally update assumptions related to contractholder behavior and mortality in the third quarter of each year by considering the actual results that have occurred during the period from the most recent update to the expected amounts. 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. Generally, we do not expect our actual mortality 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.

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, and the long-term expected rate of return used thereafter. While the information below is for illustrative purposes

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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, 2011 Increase/(Reduction) in GMDB/GMIB Reserves (in millions)	
Decrease in future rate of return by 100 basis points	$	114
Increase in future rate of return by 100 basis points	$	(96)

For a discussion of adjustments to the reserves for GMDBs and GMIBs related to our Individual Annuities segment for the years ended December 31, 2011, 2010 and 2009, 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 $2.7 billion as of December 31, 2011 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 review our claim termination assumptions compared 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. Recently, our claim termination experience has been impacted by increased volatility driven by the economic downturn. 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.

Unearned revenue reserves for universal life and investment contracts

Our unearned revenue reserve, or URR, reported as a component of Policyholders account balances, is $1.7 billion as of December 31, 2011. 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.

The URR balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2011 was $1.0 billion. The following table provides a demonstration of the sensitivity of that

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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, 2011 Increase/(Reduction) in URR (in millions)	
Decrease in future mortality by 1%	$	28
Increase in future mortality by 1%	$	(28)

For a discussion of URR adjustments related to our Individual Life segment for the years ended December 31, 2011, 2010, and 2009, 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 2011 was 7.00% for our pension plans and 7.00% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2010, 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, 2011		
	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	$ (101)	$	(14)
Decrease in expected rate of return by 100 basis points	$ 101	$	14

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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, 2010 methodology we employed to determine our discount rate for 2011. Our assumed discount rate for 2011 was 5.60% for our pension plans and 5.35% for our other postretirement benefit plans. Given the amount of pension and postretirement obligation as of December 31, 2010, the beginning of the measurement year, if we had assumed a discount rate 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 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, 2011	
	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	$ (2)	$ (5)
Decrease in discount rate by 100 basis points	$ 49	$ 3

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 2011, 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, 2012, we will decrease the discount rate to 4.85% from 5.60% in 2011. The expected rate of return on plan assets will decrease to 6.75% in 2012 from 7.00% in 2011, 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, 2011, the sensitivity of our pension and postretirement obligations to a 100 basis point change in discount rate was as follows:

	December 31, 2011	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
Increase in discount rate by 100 basis points	(10)%	(9)%
Decrease in discount rate by 100 basis points	11%	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 does not provide U.S. income taxes on unremitted foreign earnings of its non-U.S. Operations, other than its operations in Japan and certain operations in India, Germany, and Taiwan.

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Tax regulations require items to be included in the tax return at different times from when the items are reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is 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 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 2011 of $51 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.

Our liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the IRS or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to our liability for income taxes. The Federal statute of limitations for the 2002 tax year expired on April 30, 2009. The Federal statute of limitations for the 2003 tax year expired on July 31, 2009. The Federal statute of limitations for the 2004 through 2007 tax years will expire in June 2012, unless extended. Tax years 2008 through 2010 are still open for IRS examination. See Note 19 to the Consolidated Financial Statements for a discussion of the impact in 2009 and 2011 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.

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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.

Adoption of New Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements.

Future Adoption of New Accounting Pronouncements

In October 2010, the FASB issued authoritative guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The Company adopted this guidance effective January 1, 2012, and will apply the retrospective method of adoption. We estimate that if the new guidance were adopted as of December 31, 2011, retrospective adoption would reduce deferred policy acquisition costs by approximately $3.6 billion to $4.4 billion for the Financial Services Businesses and by approximately $0.2 billion for the Closed Block Business, increase policy reserves for certain limited pay contracts by approximately $0.2 billion to $0.3 billion for the Financial Services Businesses, and reduce total equity by approximately $2.6 billion to $3.0 billion for the Financial Services Businesses and approximately $0.1 billion for the Closed Block Business. Subsequent to the adoption of the guidance, the lower level of costs qualifying for deferral may be only partially offset by a lower level of amortization of deferred policy acquisition costs, and, as such, may initially result in lower earnings in future periods, primarily within the International Insurance and Individual Annuities segments. The impact to the International Insurance segment largely reflects lower deferrals of allocated costs of its proprietary distribution system, while the impact to the Individual Annuities segment 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 our 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.

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Consolidated Results of Operations

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

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Financial Services Businesses by segment:			
Individual Annuities	$ 2,018	$ 1,019	$ 621
Retirement	956	687	376
Asset Management	756	529	9
Total U.S. Retirement Solutions and Investment Management Division	3,730	2,235	1,006
Individual Life	496	461	696
Group Insurance	265	193	97
Total U.S. Individual Life and Group Insurance Division	761	654	793
International Insurance	2,986	1,644	1,095
Total International Insurance Division	2,986	1,644	1,095
Corporate and Other	(2,557)	(866)	(890)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	4,920	3,667	2,004
Income tax expense	1,537	1,058	131
Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	3,383	2,609	1,873
Equity in earnings of operating joint ventures, net of taxes	185	84	1,523
Income from continuing operations for Financial Services Businesses	3,568	2,693	3,396
Income (loss) from discontinued operations, net of taxes	35	32	(19)
Net income Financial Services Businesses	3,603	2,725	3,377
Less: Income (loss) attributable to noncontrolling interests	72	11	(34)
Net income of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 3,531	$ 2,714	$ 3,411
Basic income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.23	$ 5.75	$ 7.72
Diluted income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.14	$ 5.68	$ 7.67
Basic net income attributable to Prudential Financial, Inc. per share Common Stock	$ 7.31	$ 5.82	$ 7.68
Diluted net income attributable to Prudential Financial, Inc. per share Common Stock	$ 7.22	$ 5.75	$ 7.63
Closed Block Business:			
Income (loss) from continuing operations before income taxes for Closed Block Business	$ 197	$ 725	$ (480)
Income tax expense (benefit)	62	245	(193)
Income (loss) from continuing operations for Closed Block Business	135	480	(287)
Income from discontinued operations, net of taxes	0	1	0
Net income (loss) Closed Block Business	135	481	(287)
Less: Income attributable to noncontrolling interests	0	0	0

Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ 135	$ 481	$ (287)
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ 55.50	$ 222.00	$ (165.00)
Basic and diluted net income (loss) attributable to Prudential Financial, Inc.per share Class B Stock	$ 55.50	$ 222.50	$ (165.00)
Consolidated:			
Net income attributable to Prudential Financial, Inc.	$ 3,666	$ 3,195	$ 3,124

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Results of Operations Financial Services Businesses

2011 to 2010 Annual Comparison. Income from continuing operations for the Financial Services Businesses increased $875 million, from $2,693 million in 2010 to $3,568 million in 2011. Results for 2011 compared to 2010 reflect the following:

- Higher net pre-tax earnings resulting from the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, for which we economically hedge the foreign currency exposure, driven by the strengthening of the yen during 2011;

- Higher net pre-tax gains associated with our general account portfolio, excluding the impact of the hedging program associated with certain variable annuities as described 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 due to foreign currency exchange rate movements;

- 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 International Insurance 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, in our International Insurance operations.

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

- A $722 million unfavorable variance, before taxes, reflecting the net impact from the mark-to-market of 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 $580 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; 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.

On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for 2011 of $7.14 per share of Common Stock increased from $5.68 per share of Common Stock for 2010. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis, see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account

Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $24 million for 2011, compared to $36 million for 2010. As described more fully in Note 16 to the Consolidated Financial Statements, the direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums.

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Generally, as statutory cash premiums and policies in force in the Closed Block Business decline, we expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

2010 to 2009 Annual Comparison. Income from continuing operations for the Financial Services Businesses decreased $703 million, from $3,396 million in 2009 to $2,693 million in 2010. Results for 2009 include a $1,457 million after tax gain on the sale of our minority joint venture interest in Wachovia Securities to Wells Fargo. Absent the effect of this item, income from continuing operations for the Financial Services Businesses for 2010 increased $754 million from 2009 reflecting the following:

- Net pre-tax gains in 2010 compared to net pre-tax losses in 2009 associated with our general account portfolio and hedging programs, reflecting the impact of financial market conditions in each period;

- 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 currency fluctuations, in our International Insurance operations and higher life-contingent structured settlement and single premium annuity sales in our retirement business; and

- Increases in other income and benefits and expenses due to changes in value of recorded assets and liabilities that are expected to ultimately accrue to contractholders.

On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for 2010 of $5.68 per share of Common Stock decreased from $7.67 per share of Common Stock for 2009.

The direct equity adjustment, as described above, increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $36 million for 2010 compared to $43 million for 2009.

Results of Operations Closed Block Business

2011 to 2010 Annual Comparison. Income from continuing operations for the Closed Block Business for 2011, was $135 million, or $55.50 per share of Class B Stock, compared to $480 million, or $222.00 per share of Class B Stock, for 2010. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $24 million for 2011, compared to $36 million for 2010. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

2010 to 2009 Annual Comparison. Income (loss) from continuing operations for the Closed Block Business for 2010, was $480 million, or $222.00 per share of Class B Stock, compared to a loss of $287 million, or $(165.00) per share of Class B Stock, for 2009. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $36 million for 2010 compared to $43 million for 2009. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

Segment Measures

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

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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.

Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

Operating Results

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

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Operating results:			
Revenues	$ 3,638	$ 3,195	$ 2,515
Benefits and expenses	2,925	2,149	1,758
Adjusted operating income	713	1,046	757
Realized investment gains (losses), net, and related adjustments(1)	3,136	120	416
Related charges(2)	(1,831)	(147)	(552)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 2,018	$ 1,019	$ 621

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments, which include the net impact of embedded derivatives related to our living benefit features and related hedge positions as described below. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(2) Revenues exclude related charges which represent payments related to the market value adjustment features of certain of our annuity products. Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on changes in reserves and the amortization of deferred policy acquisition costs, deferred sales inducements and value of business acquired.

Adjusted Operating Income

2011 to 2010 Annual Comparison. Adjusted operating income decreased $333 million, from $1,046 million in 2010 to $713 million in 2011. The decrease in adjusted operating income was driven by the impacts of a $232 million net charge in the current year, and a $348 million net benefit in the prior year, from adjustments to amortization of deferred policy acquisition costs (DAC) and other costs and to the reserves for the guaranteed minimum death benefit (GMDB) and guaranteed minimum income benefit (GMIB) features of our variable annuity products, primarily driven by the impact to the estimated profitability of the business of quarterly adjustments to reflect current period market performance and experience, as well as the impact of annual reviews and updates of the assumptions used in estimating the profitability of our business. Results for both years include the impact of these items which are discussed in more detail below.

Excluding the items discussed above, adjusted operating income increased $247 million. The increase was driven by higher fee income, net of distribution costs, due to higher average variable annuity account values invested in separate accounts primarily driven by positive net flows. See Account Values below for a further discussion of our account values and sales. The higher fee income was partially offset by higher general and administrative expenses, net of capitalization, reflecting higher 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.

As shown in the following table, adjusted operating income for 2011 included $232 million of net charges from adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products, compared to $348 million of net benefits included in 2010.

	Year ended December 31, 2011			Year ended December 31, 2010		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustments	$ (118)	$ (170)	$ (288)	$ 36	$ 67	$ 103
Annual review/assumption updates	(45)	65	20	165	12	177
Quarterly adjustments for current period experience and other updates(3)	31	5	36	23	45	68
Total	$ (132)	$ (100)	$ (232)	$ 224	$ 124	$ 348

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of DAC and other costs resulting from adjustments to our estimate of total gross profits.
(2) Amounts reflect (charges) or benefits for reserve (increases) or decreases, respectively, related to the GMDB / GMIB features of our variable annuity products.
(3) Represents the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as updates for current and future expected claims costs associated with the GMDB / GMIB features of our variable annuity products.

The $288 million of charges and $103 million of benefits in 2011 and 2010, respectively, relating to the quarterly market performance adjustments shown in the table above are attributable to changes to our estimate of total gross profits to reflect actual fund performance. The following table shows the actual quarterly rates of return on variable annuity account values compared to our previously expected quarterly rates of return used in our estimate of total gross profits for the periods indicated.

	2011				2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Actual rate of return	3.7%	0.8%	(9.8)%	4.9%	3.4%	(5.2)%	8.1%	6.0%
Expected rate of return	1.7%	1.7%	1.7%	2.2%	2.0%	1.9%	2.1%	1.9%

Overall lower than expected returns in 2011 decreased our estimate of total gross profits used as a basis for amortizing DAC and other costs and increased our estimate of future expected claims costs associated with the GMDB and GMIB features of our variable annuity products, by establishing a new, lower starting point for the variable annuity account values used in estimating those items for future periods. This change results in a higher required rate of amortization and higher required reserve provisions, which are applied to all prior periods. The resulting cumulative adjustment to prior amortization and reserve provisions are recognized in the current period. Overall higher than expected returns in 2010 had opposite impacts, resulting in an increase to our estimate of total gross profits used as a basis for amortizing DAC and other costs and a decrease to our estimate of future expected claims costs associated with the GMDB and GMIB features of our variable annuity products. This change resulted in a lower required rate of amortization and lower required reserve provisions, which were applied to all prior periods.

As discussed and shown in the table above, results for both years include the impact of the annual reviews performed in the third quarter of the assumptions used in the reserves for the GMDB and GMIB features of our variable annuity products and in our estimate of total gross profits used as a basis for amortizing DAC and other costs. The third quarter of 2011 included $20 million of net benefits from these annual reviews, primarily related to a reduction of the assumption of the percentage of contracts with a GMIB feature that will annuitize based on the guaranteed value, partially offset by a reduction of the weighted average future return assumption to 4.3% on fixed rate portfolios. The reduction in the weighted average future return assumption on fixed rate portfolios was driven by a refinement to our rate-setting methodology to reflect a lower interest rate assumption for the next five years to reflect current market conditions, and use the long-term assumed rate thereafter in determining the blended future return on fixed rate investments of 4.3%. The third quarter of 2010 included $177 million of benefits from these annual reviews, primarily related to reductions in lapse rate assumptions and more favorable assumptions relating to fee income.

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For a further discussion of the assumptions, including our current near-term and long-term projected rates of return, used in estimating total gross profits used as the basis 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, see Accounting Policies and Pronouncements Application of Critical Accounting Estimates.

The $36 million and $68 million of benefits in 2011 and 2010, respectively, shown in the table above, reflect the quarterly adjustments for current period experience and other updates, also referred to as experience true-up adjustments. The experience true-up adjustments for 2011 include reductions to both the amortization of DAC and other costs and the reserves related to the GMDB and GMIB features of our variable annuity products. The reduction to the amortization of DAC and other costs was driven by higher than expected gross profits primarily from lower than expected lapses, higher than expected fee income and higher than expected general account spreads. The reduction to the reserves related to the GMDB and GMIB features of our variable annuity products was driven by lower than expected actual contract guarantee claim costs, higher than expected fee income and higher than expected general account spreads, partially offset by lower than expected lapses. The experience true-up adjustments for 2010 included a reduction in the amortization of DAC and other costs driven by higher than expected gross profits primarily from higher than expected fee income, and a reduction to the reserves related to the GMDB and GMIB features of our variable annuity products driven by lower than expected actual contract guarantee claim costs, more favorable lapse experience and higher than expected fee income.

As noted previously, the quarterly adjustments to reflect current period market performance and experience and other updates, and the annual reviews and updates of assumptions impact the estimated profitability of our business. Therefore, in addition to the current period impacts discussed above, these items will also drive changes in our GMDB and GMIB reserves and the amortization of DAC and other costs in future periods. Additionally, in the third and fourth quarters of 2011, we evaluated the results of our living benefits hedging program and determined the difference between the change in the value of the hedge target liability and the change in the fair value of the hedge assets to be other-than-temporary. As a result, we included these amounts in our best estimate of total gross profits used for setting amortization rates, which will also drive changes in the amortization of DAC and other costs in future periods. The table above excludes the impacts of resetting the amortization rates for this item, as both the hedge results and related amortization of DAC and other costs are excluded from adjusted operating income. However, adjusted operating income in the fourth quarter of 2011 includes the subsequent impact to base amortization from resetting the amortization rates at the end of the third quarter. Base amortization is calculated by applying the new rates to actual gross profits for the quarter. See Net impact of embedded derivatives related to our living benefit features and related hedge positions for additional details on the impact of our hedge results that are excluded from adjusted operating income.

2010 to 2009 Annual Comparison. Adjusted operating income increased $289 million, from $757 million in 2009 to $1,046 million in 2010. The increase in adjusted operating income was primarily due to an increase in fee income, net of higher distribution costs, driven by higher average variable annuity account values invested in separate accounts due to positive net flows and net market appreciation.

Partially offsetting the increase in adjusted operating income was a $31 million lower benefit related to adjustments to the reserves for the GMDB and GMIB features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing DAC and other costs. As shown in the following table, adjusted operating income for 2010 included $348 million of benefits from these adjustments, compared to $379 million of benefits included in 2009. This variance is discussed in more detail below.

	Year ended December 31, 2010			Year ended December 31, 2009		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustments	$ 36	$ 67	$ 103	$ 54	$ 277	$ 331
Annual review/assumption updates	165	12	177	(30)	(19)	(49)
Quarterly adjustments for current period experience and other updates(3)	23	45	68	63	34	97

Total	$ 224	$ 124	$ 348	$ 87	$ 292	$ 379

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of DAC and other costs resulting from adjustments to our estimate of total gross profits.

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(2) Amounts reflect (charges) or benefits for reserve (increases) or decreases, respectively, related to the GMDB / GMIB features of our variable annuity products.
(3) Represents the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as updates for current and future expected claims costs associated with the GMDB / GMIB features of our variable annuity products.

The $103 million and $331 million of benefits for 2010 and 2009, respectively, relating to the quarterly market performance adjustments shown in the table above are attributable to changes to our estimate of total gross profits to reflect actual fund performance. The following table shows the actual quarterly rates of return on variable annuity account values compared to our previously expected quarterly rates of return used in our estimate of total gross profits for the periods indicated.

	2010				2009			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Actual rate of return	3.4%	(5.2)%	8.1%	6.0%	(4.5)%	12.7%	10.6%	3.0%
Expected rate of return	2.0%	1.9%	2.1%	1.9%	2.5%	2.5%	2.4%	2.1%

Actual returns exceeded our expected returns for 2010 which increased our estimates of total gross profits and decreased our estimate of future expected claims costs associated with the GMDB and GMIB features of our variable annuity products, by establishing a new, higher starting point for the variable annuity account values used in estimating those items for future periods. The expected rates of return in 2010 for some contract groups were based upon our maximum future rate of return under the reversion to the mean approach. The overall increase in our estimate of total gross profits and decrease in our estimate of future expected claims costs results in a lower required rate of amortization and lower required reserve provisions, which are applied to all prior periods. The resulting cumulative adjustment to prior amortization and reserve provisions was a $103 million benefit for 2010 as shown in the table above.

The $331 million of benefits for 2009 relating to the quarterly market performance adjustments is attributable to a similar impact on gross profits of market value increases in the underlying assets associated with our variable annuity products, reflecting financial market conditions during the period. The benefit in 2009 is higher than that in 2010 due to a greater difference in 2009 between the actual rates of return and the expected rates of return. Also, the $54 million decrease in amortization of DAC and other costs in 2009 is net of a $73 million charge to impair the entire remaining balance of value of business acquired, or VOBA, related to the variable annuity contracts acquired from The Allstate Corporation, or Allstate, in the second quarter of 2006. The additional charge was required in the first quarter of 2009, as the declines in estimated future gross profits related to market performance caused the present value of estimated gross profits for these contracts to fall below zero. Since the VOBA balance was completely amortized for these contracts, it cannot be reestablished for market value appreciation in subsequent periods.

As discussed and shown in the table above, results for both periods also include the impact of the annual reviews performed in the third quarter of the assumptions used in the reserves for the GMDB and GMIB features of our variable annuity products and in our estimate of total gross profits used as a basis for amortizing DAC and other costs. 2010 included $177 million of benefits from these annual reviews, primarily related to reductions in lapse rate assumptions and more favorable assumptions relating to fee income. 2009 included $49 million of charges from these annual reviews, primarily related to reductions in the future rate of return assumptions applied to the underlying assets associated with our variable annuity products. Partially offsetting the impact of the updated future rate of return assumptions for 2009 were benefits related to the impact of lower mortality and higher investment spread assumptions.

The $68 million benefit for 2010 and the $97 million benefit for 2009 for the quarterly adjustments for current period experience and other updates shown in the table above primarily reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the GMDB and GMIB features of our variable annuity products. 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, and a cumulative adjustment to previous periods amortization, also referred to as an experience true-up adjustment, may be required in the current period.

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This adjustment to previous periods amortization is in addition to the direct impact of actual gross profits on current period amortization and the market performance related adjustment to our estimates of gross profits for future periods. The experience true-up adjustments for deferred policy acquisition and other costs for 2010 reflect a reduction in amortization due to better than expected gross profits, resulting primarily from higher than expected fee income. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in 2010 primarily reflects a reserve decrease driven by lower than expected actual contract guarantee claim costs, more favorable lapse experience, and higher than expected fee income. The experience true-up adjustments for deferred policy acquisition and other costs for 2009 reflect a reduction in amortization due to better than expected gross profits. The adjustment for the reserves for the GMDB and GMIB features of our variable annuity products in 2009 primarily reflects higher than expected fee income due to market value increases, partially offset by higher than expected actual contract guarantee claims costs due to lower than expected lapses.

Revenues

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $443 million, from $3,195 million in 2010 to $3,638 million in 2011. Policy charges and fees and asset management fees and other income increased $576 million driven by higher average variable annuity account values invested in separate accounts due to positive net flows and net transfers of balances from the general account to the separate accounts primarily driven by an automatic rebalancing element, also referred to as an asset transfer feature, in some of our optional living benefit features. 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 also resulting from transfers from the general account to the separate accounts. Premiums also decreased $45 million, reflecting a decline in annuitizations of our variable annuity contracts.

2010 to 2009 Annual Comparison. Revenues increased $680 million, from $2,515 million in 2009 to $3,195 million in 2010. Policy charges and fees and asset management fees and other income increased $703 million primarily due to higher average variable annuity account values invested in separate accounts. The increase in average separate account asset balances was due to positive net flows, net market appreciation, and net transfers of balances from the general account to the separate accounts during 2010. Premiums also increased $78 million driven by an increase in annuitizations primarily from contracts with the GMIB feature. Partially offsetting the increase in revenues was a decrease in net investment income of $101 million, reflecting lower average annuity account values in the general account also resulting from transfers from the fixed-rate account in the general account to the separate accounts as discussed above.

See Account Values below for a further discussion of our account values and sales, and Variable Annuity Net Amount at Risk below for a further discussion of the automatic rebalancing element in some of our optional living benefit features.

Benefits and Expenses

2011 to 2010 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $776 million, from $2,149 million in 2010 to $2,925 million in 2011. Absent the net $580 million increase related to the adjustments to the reserves for the GMDB and GMIB features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing DAC and other costs, discussed above, benefits and expenses increased $196 million. General and administrative expenses, net of capitalization, increased $199 million, driven by higher distribution and asset management costs, reflecting business and account value growth. The amortization of DAC increased $97 million primarily reflecting the impact of higher gross profits used as a basis for amortization driven by higher fee income. 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 fixed-rate account of the general account partially offset by higher amortization of deferred sales inducements reflecting the impact of higher gross profits. Insurance and annuity benefits also decreased $39 million, primarily driven by the decrease in premiums noted above.

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2010 to 2009 Annual Comparison Benefits and expenses increased $391 million, from $1,758 million in 2009 to $2,149 million in 2010. Absent the net $31 million increase related to the adjustments to the reserves for the GMDB and GMIB features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing DAC and other costs, benefits and expenses increased $360 million. General and administrative expenses, net of capitalization, increased $240 million primarily driven by higher distribution and asset management costs, reflecting higher average variable annuity asset balances invested in separate accounts and higher variable annuity sales. Interest expense also increased $53 million driven by higher intercompany borrowings to fund operating costs and new business sales. The amortization of DAC increased $36 million reflecting the impact of higher gross profits used as a basis for amortization driven by higher fee income. Insurance and annuity benefits increased $34 million driven by an increase in annuitizations primarily from contracts with the GMIB feature partially offset by lower reserves on the GMDB and GMIB features due to the impact of favorable markets on account values during 2010. Lower interest credited to policyholders account balances driven by lower average annuity account values in the fixed-rate accounts of the general account was mostly offset by higher amortization of deferred sales inducements, reflecting the impact of higher gross profits primarily from fee income.

Account Values

The following table sets forth changes in account values for the individual annuity business, for the periods indicated. For our individual annuity business, assets are reported at account value, and net sales (redemptions) are gross sales minus redemptions or surrenders and withdrawals, as applicable. Gross sales do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Variable Annuities(1):			
Beginning total account value	$ 102,348	$ 80,519	$ 60,007
Sales	20,224	21,651	16,117
Surrenders and withdrawals	(7,049)	(6,923)	(5,776)
Net sales	13,175	14,728	10,341
Benefit payments	(1,092)	(981)	(988)
Net flows	12,083	13,747	9,353
Change in market value, interest credited and other activity(2)	(2,450)	9,748	12,220
Policy charges	(2,238)	(1,666)	(1,061)
Ending total account value(3)	$ 109,743	$ 102,348	$ 80,519
Fixed Annuities:			
Beginning total account value	$ 3,837	$ 3,452	$ 3,295
Sales	69	103	179
Surrenders and withdrawals	(183)	(215)	(258)
Net redemptions	(114)	(112)	(79)
Benefit payments	(276)	(267)	(160)
Net flows	(390)	(379)	(239)
Interest credited and other activity(2)	346	766	397
Policy charges	(1)	(2)	(1)
Ending total account value	$ 3,792	$ 3,837	$ 3,452
Total Individual Annuities Ending total account value	**$ 113,535**	**$ 106,185**	**$ 83,971**

(1) Variable annuities include only those sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment.
(2) Includes cumulative reclassifications of $267 million in 2010 and $259 million in 2009 from variable annuity to fixed annuity account values to conform presentation of certain contracts in annuitization status to current reporting practices.
(3) As of December 31, 2011, variable annuity account values are invested in equity portfolios ($50 billion or 46%), bond portfolios ($43 billion or 39%), market value adjusted or fixed-rate accounts ($9 billion or 8%), and other ($8 billion or 7%).

2011 to 2010 Annual Comparison. Total account values for variable and fixed annuities amounted to $113.5 billion as of December 31, 2011, representing an increase of $7.4 billion from December 31, 2010. The increase was driven by positive variable annuity net flows, partially offset by decreases in the market value of customers variable annuities due to unfavorable equity markets and higher policy charges driven by the growing account value base. Gross sales of our variable annuities decreased $1.4 billion, driven by 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. Despite these impacts, we believe that our current product offerings remain competitively positioned and expect our living benefit features will provide us an attractive risk and profitability profile, as all of our currently-sold optional living benefit features include an automatic rebalancing element. Our automatic rebalancing element occurs at the contractholder level, rather than at the fund level, which we believe enhances our risk management capabilities. Individual variable annuity surrenders and withdrawals were relatively flat despite the increase in account values, as the newly acquired business experienced lower lapse rates. See Variable Annuity Net Amount at Risk for a more detailed discussion of our automatic rebalancing element.

2010 to 2009 Annual Comparison. Total account values for fixed and variable annuities amounted to $106.2 billion as of December 31, 2010, representing an increase of $22.2 billion from December 31, 2009. The increase was driven by positive variable annuity net flows and increases in the market value of customers variable annuities due to favorable equity markets for 2010. Individual variable annuity gross sales increased $5.5 billion, from $16.1 billion in 2009 to $21.6 billion in 2010. The increase reflects our product strength, customer value proposition, and position as the primary provider of living benefit guarantees based on highest daily customer account value as well as the further expansion of our distribution networks. Additionally, we benefited from some of our competitors implementing product modifications to increase pricing and scale back product features due to market disruptions in late 2008 and the first half of 2009. Individual variable annuity surrenders and withdrawals increased by $1.1 billion, from $5.8 billion in 2009 to $6.9 billion in 2010, reflecting the overall impact of higher account values in 2010 due to market appreciation during that period.

Variable Annuity Net Amount at Risk

The net amount at risk is generally defined as the present value of the guaranteed minimum benefit amount in excess of the contractholder s current account balance. Changes in the global financial markets can create volatility in the net amounts at risk embedded in our variable annuity products that include optional living benefit and GMDB features. As part of our risk management strategy, we hedge or limit our exposure to certain of the risks associated with these products, primarily through a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments. Our hedging program is discussed below in Net impact of embedded derivatives related to our living benefit features and related hedge positions. The rate of return we realize from our variable annuity contracts can vary by contract based on our risk management strategy, including the impact of any capital market movements that we may hedge, the impact on that portion of our variable annuity contracts that benefit from the automatic rebalancing element, the impact of risks we have deemed suitable to retain and the impact of risks that are not able to be hedged.

The automatic rebalancing element, also referred to as an asset transfer feature, included in the design of certain optional living benefits, 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 transfers assets between certain variable investments selected by the annuity contractholder and 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. In general, negative investment performance may result in transfers to either the fixed-rate account in the general account or a bond portfolio within the separate accounts, and positive investment performance may result in transfers back to contractholder-selected variable investments. Overall, the automatic rebalancing element helps to mitigate our exposure to equity market risk and market volatility. Beginning in 2009, all offerings of optional living benefit features associated with currently-sold variable annuity products include an automatic rebalancing element, and in 2009 we discontinued any new sales of optional living benefit features without an automatic rebalancing element.

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The following table sets forth the account values of our variable annuities with living benefit features and the net amount at risk of the living benefit features split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

	December 31, 2011		December 31, 2010		December 31, 2009	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			($ in millions)			
Automatic rebalancing element(1)	$ 70,341	$ 4,238	$ 57,336	$ 1,217	$ 34,901	$ 1,061
No automatic rebalancing element	15,300	2,361	17,735	1,825	17,570	2,785
Total variable annuity account values with living benefit features	$ 85,641	$ 6,599	$ 75,071	$ 3,042	$ 52,471	$ 3,846
			(% of total)			
Automatic rebalancing element	82%	64%	76%	40%	67%	28%
No automatic rebalancing element	18	36	24	60	33	72
Total variable annuity account values with living benefit features	100%	100%	100%	100%	100%	100%

(1) As of December 31, 2011, 2010 and 2009, asset values that have rebalanced to the general account or a separate account bond portfolio due to the automatic rebalancing element represent 30% or $20.9 billion of the $70.3 billion total account value, 12% or $6.7 billion of the $57.3 billion total account value and 23% or $8.2 billion of the $34.9 billion total account value, respectively.

The increase in account values that include an automatic rebalancing element as of December 31, 2011 compared to prior periods primarily reflects sales of our latest product offerings which include this feature. The increase in the net amount at risk for these contracts as of December 31, 2011 compared to prior periods reflects overall growth in our variable annuity business and account value performance during 2011.

Our GMDBs guarantee a minimum return on the contract value or an enhanced value, if applicable, to be used solely for purposes of determining benefits payable in the event of death. The net amount at risk associated with the GMDBs provided by our variable annuity contracts includes risk we have deemed suitable to retain. However, certain of these account values are affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element. All of the variable annuity account values with living benefit features shown in the table above also contain GMDBs. An additional $21.1 billion, $24.0 billion and $24.4 billion of variable annuity account values, as of December 31, 2011, 2010 and 2009, respectively, contain GMDBs, but no living benefit features. The following table sets forth the account values of our variable annuities with GMDBs and the net amount at risk of these benefits split between those that are affected by an automatic rebalancing element and those that are not, as of the dates indicated.

	December 31, 2011		December 31, 2010		December 31, 2009	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			($ in millions)			
Automatic rebalancing element	$ 70,341	$ 2,154	$ 57,336	$ 592	$ 34,901	$ 800
No automatic rebalancing element	36,407	5,628	41,693	4,867	41,975	7,798
Total variable annuity account values with death benefit features	$ 106,748	$ 7,782	$ 99,029	$ 5,459	$ 76,876	$ 8,598

			(% of total)			
Automatic rebalancing element	66%	28%	58%	11%	45%	9%
No automatic rebalancing element	34	72	42	89	55	91
Total variable annuity account values with death benefit features	100%	100%	100%	100%	100%	100%

The increase in account values that include an automatic rebalancing element as of December 31, 2011 compared to prior periods primarily reflects sales of our latest product offerings which include this feature. The increase in the net amount at risk for these contracts as of December 31, 2011 compared to 2010 reflects overall growth in our variable annuity business and account value performance during 2011.

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Net impact of embedded derivatives related to our living benefit features and related hedge positions

As mentioned above, in addition to our automatic rebalancing element, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefit hedging program, we purchase interest rate swaps, swaptions, floors and caps as well as equity options and futures to hedge certain living benefit features accounted for as embedded derivatives against changes in certain capital market assumptions such as interest rates, equity markets and market volatility. Prior to the third quarter of 2010, our hedging strategy sought to generally match certain capital market 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), with capital market derivatives. In the third quarter of 2010, we revised our hedging strategy as, in a low interest rate environment, we do not believe that the U.S. GAAP value of the embedded derivative liability is an appropriate measure for defining the hedge target. Our current hedge target definition is grounded in a U.S. GAAP/capital markets valuation framework but incorporates two modifications to the U.S. GAAP valuation assumptions. We add a credit spread to the U.S. GAAP risk-free rate of return assumption used to estimate future growth of bond investments in the customer separate account funds to account for the fact that the underlying customer separate account funds which support these living benefits are invested in assets that contain risk. We also adjust our volatility assumption to remove certain risk margins embedded in the valuation technique used to determine the fair value of the embedded derivative liability under U.S. GAAP, as we believe the impact on the liability driven by these margins is temporary and does not reflect the economic value of the liability. This hedging strategy results in differences each period between the change in the value of the embedded derivative liability as defined by U.S. GAAP and the change in the value of the hedge positions, potentially increasing volatility in U.S. GAAP earnings.

In addition, we evaluate hedge levels versus our hedge target based on the overall capital considerations of the Company and prevailing capital market conditions, and may decide to temporarily hedge to an amount that differs from our hedge target definition. Based on these considerations, beginning in the latter half of 2010, we decided to temporarily hedge to an amount less than our hedge target definition to be consistent with our long-term economic view. From the inception of this decision through December 31, 2011, we have experienced cumulative increases in the hedge target liability of approximately $1.4 billion related to the under-hedged risk, with no corresponding hedge asset increase. This cumulative impact includes $1.7 billion of losses attributable to 2011, partially offset by $0.3 billion of gains attributable to 2010. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our hedge target definition is reported within Corporate and Other operations, as described in Corporate and Other.

As of December 31, 2011, the fair value of the living benefit embedded derivative under U.S. GAAP was a $2.8 billion liability. Excluding the impact of the cumulative adjustment for NPR of $5.5 billion, the value of the living benefit embedded derivative was an $8.3 billion liability. As of December 31, 2011, the value of our hedge target, based on our hedge target definition, was a $7.1 billion liability. The difference between the value of the hedge target and the value of the living benefit embedded derivative under U.S. GAAP, excluding NPR, as of December 31, 2011 is primarily attributable to the impact of the margins and return assumptions as discussed above.

As described above, our hedging strategy uses capital markets instruments to generally match certain capital market sensitivities of the portion of the hedge target liability we choose to hedge. As of December 31, 2011, the fair value of our hedge positions was a net asset position of $5.3 billion. Due to cash flow timing differences between our hedging instruments and the corresponding hedge target, as well as our decision to temporarily hedge to an amount that differs from our hedge target definition and other factors, the amount of hedge assets compared to our hedge target measured as of any specific point in time will be different, and is not expected to be fully offsetting.

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

The net impact of both the change in the value of the embedded derivative liabilities associated with our living benefit features and the change in fair value of the related derivative hedge positions are included in Realized investment gains (losses), net, and related adjustments and the related impact to the amortization of

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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 liability and related hedge positions, as well as the related amortization of DAC and other costs, for the years ended December 31, 2011, 2010 and 2009 for the Individual Annuities segment.

	Year Ended December 31,		
	2011	2010 (1)	2009
	(in millions)		
Change in fair value of hedge positions	$ 3,873	$ (224)	$ (2,715)
Change in value of hedge target liability, excluding unhedged portions and assumption updates(2)	(5,170)	364	3,049
Net hedging impact, excluding unhedged portions and assumption updates	(1,297)	140	334
Change in portions of embedded derivative liability, before NPR, excluded from hedge target definition(3)	(457)	387	0
Impact of assumption updates on hedge target liability	(17)	(902)	(110)
Change in the NPR adjustment(4)	4,786	412	312
Net benefit from changes in embedded derivative liability and hedge positions reported in the Individual Annuities segment	3,015	37	536
Related charge to amortization of DAC and other costs(5)	(1,736)	(4)	(410)
Net benefit from changes in embedded derivative liability and hedge positions, after the impact of NPR, DAC and other costs, reported in the Individual Annuities segment	$ 1,279	$ 33	$ 126
Change in value of unhedged portion of hedge target liability reported in Corporate & Other operations(6)	$ (1,662)	$ 306	$ 0

(1) Positive amount represents income; negative amount represents a loss.
(2) Beginning with the third quarter of 2010, represents the change in value based on our hedge target definition as described above, excluding the impacts of temporarily hedging to an amount that differs from our hedge target definition and assumption updates. Prior to the third quarter of 2010, our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by U.S. GAAP, excluding the impact of NPR.
(3) Represents the impact attributable to the difference between the value of the hedge target liability, based on our hedge target definition, and the value of the embedded derivative liability as defined by U.S. GAAP, before adjusting for NPR.
(4) To reflect NPR, we incorporate an additional spread over LIBOR into the discount rate used in the valuation of those individual living benefit contracts in a liability position and not to those in a contra-liability position. As of December 31, 2011, the value of the embedded derivatives, before the adjustment for NPR, was a net liability of $8.3 billion. This net liability was comprised of $8.5 billion of individual living benefit contracts in a liability position, net of $0.2 billion of individual living benefit contracts in a contra-liability position.
(5) Related charge to amortization of DAC and other costs is excluded from adjusted operating income and included in operating results in Related charges.
(6) Represents the impact of temporarily hedging to an amount that differs from our hedge target definition. This amount is not reported in the Individual Annuities segment. See Corporate and Other for details.

As shown in the table above, the net impacts from changes in the embedded derivative liability and hedge positions, after the impact of DAC and other costs, reported in the Individual Annuities segment were net benefits of $1,279 million, $33 million and $126 million for 2011, 2010 and 2009, respectively.

The net benefit of $1,279 million in 2011 included a net charge of $1,297 million resulting from the net impact of hedging, excluding the unhedged portions and assumption updates, driven by significant capital markets volatility in the second half of 2011. Also included in the net benefit of $1,279 million was a net charge of $457 million attributable to the difference between the valuation of the embedded derivative liability as defined by U.S. GAAP and the valuation of the hedge target liability, which we choose not to hedge. These charges were offset by a $4,786 million adjustment to the embedded derivative liability to reflect NPR, primarily from a higher base of embedded derivative liabilities, driven by significant declines in risk-free interest rates and the impact of account value performance, as well as an overall widening of the credit spreads used in valuing NPR, which reflect the financial strength ratings of our insurance subsidiaries. Partially offsetting these items was a net charge of $1,736 million from the inclusion of these items in current period gross profits used in calculating the amortization of DAC. In the third and fourth quarters of 2011, we also determined that the cumulative difference between the change in the value of the hedge target liability, excluding the unhedged portions and assumption updates, and the change in the fair value of the hedge assets was other-than-temporary.

As a result, we included the cumulative differences in our best estimate of total gross profits, which resulted in an increase in our DAC amortization rates. For a further discussion of the assumptions used in estimating total gross profits used as the basis for amortizing DAC and other costs, see Accounting Policies and Pronouncements Application of Critical Accounting Estimates.

The net benefit of $33 million in 2010 included a net benefit of $140 million resulting from the net impact of hedging, excluding the unhedged portions and assumption updates, driven by differences in the actual performance of the underlying separate accounts funds relative to the performance of the market indices we utilized as a basis for developing our hedging strategy. Also included in the net benefit of $33 million was a net benefit of $387 million attributable to the difference between the valuation of the embedded derivative liability as defined by U.S. GAAP and the valuation of the hedge target liability, which we choose not to hedge, and a net charge of $902 million related to reductions in the expected lapse rate assumption based on actual experience. These items were partially offset by a $412 million adjustment to the embedded derivative liability to reflect NPR, primarily resulting from an increase in the value of embedded derivatives in a liability position, reflecting an increase in the present value of future expected benefit payments driven by lower interest rates and a reduction in the expected lapse rate assumption. Partially offsetting these items was a net charge of $4 million from the inclusion of these items in current period gross profits used in calculating the amortization of DAC.

The net benefit of $126 million in 2009 included a net benefit of $334 million resulting from the net impact of hedging, excluding assumption updates, driven by differences in the actual performance of the underlying separate accounts funds relative to the performance of the market indices we utilized as a basis for developing our hedging strategy. Also included in the net benefit of $126 million was a net charge of $110 million from updates to the expected lapse rate and equity volatility assumptions based on actual experience. These items were partially offset by a $312 million adjustment to the embedded derivative liability to reflect NPR, reflecting the initial incorporation of an additional spread over LIBOR to reflect NPR in the valuation of the embedded derivative liability in 2009. Partially offsetting these items was a net charge of $410 million from the inclusion of these items in current period gross profits used in calculating the amortization of DAC.

For additional information regarding the methodologies used in determining the fair value of the embedded derivative liability associated with our living benefit features as defined by U.S. GAAP, and for calculating the impact of NPR, 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.

Capital hedge program

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges, which primarily consisted of equity-based total return swaps, were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of businesses, the results of that program are reported within Corporate and Other operations. Consequently, see Corporate and Other for a discussion of the results of the current program. See Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries for a further discussion of the capital hedge program. The results of the Individual Annuities segment included $21 million and $180 million for 2010 and 2009, respectively, of mark-to-market losses on these capital hedges prior to their termination, driven by favorable market conditions which resulted in an increase in our capital position. The results of these hedges are included in Realized investment gains (losses), net and related adjustments and have been excluded from adjusted operating income. We continue to assess the composition of the hedging program on an ongoing basis.

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Retirement

Operating Results

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

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Operating results:			
Revenues	$ 4,871	$ 5,183	$ 4,659
Benefits and expenses	4,273	4,611	4,165
Adjusted operating income	598	572	494
Realized investment gains (losses), net, and related adjustments(1)	269	262	(825)
Related charges(2)	(11)	(17)	5
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	383	468	1,533
Change in experience-rated contract holder liabilities due to asset value changes(4)	(283)	(598)	(831)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 956	$ 687	$ 376

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses and Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on changes in reserves and the amortization of deferred policy acquisition 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.

Adjusted Operating Income

2011 to 2010 Annual Comparison. Adjusted operating income increased $26 million, from $572 million in 2010 to $598 million in 2011. The increase primarily reflects higher asset-based fee income, partially offset by lower net investment spread results and higher general and administrative expenses, net of capitalization. Also offsetting the increase in adjusted operating income is an unfavorable impact from annual reviews performed in the third quarter of the assumptions used in our estimate of total gross profits which forms the basis for amortizing deferred policy acquisition costs and value of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience.

Higher asset-based fee income was driven by an increase in fee-based investment-only stable value account values in our institutional investment products business driven by net additions, and higher average full service fee-based retirement account values primarily driven by market appreciation. For further discussion of our sales and account values, see Sales Results and Account Values.

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 impact of lower crediting rates driven by rate resets in the first quarter of 2011 and higher general account stable value account values in our full service business. The impact of higher structured settlement product balances in our institutional investment products business was essentially offset by lower balances from guaranteed investment product scheduled withdrawals.

Higher general and administrative expenses, net of capitalization, were driven by costs related to legal matters and strategic initiatives. These increases in expenses were partially offset by a decline in charges related to certain cost reduction initiatives.

Results for both 2011 and 2010 include the impact of annual reviews performed in the third quarter of the assumptions used in our estimate of total gross profits which forms the basis for amortizing deferred policy

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acquisition costs and value of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience. Adjusted operating income for 2011 and 2010 included charges of $24 million and $18 million, respectively, from the annual reviews. The quarterly adjustments for current period experience had no net impact on 2011 earnings and resulted in an $11 million benefit in 2010, reflecting the cumulative impact on amortization of differences between actual gross profits and previously estimated expected gross profits. Together, these items resulted in a net charge of $24 million in 2011 and a net charge of $7 million in 2010. The net charge of $24 million in 2011 was driven by changes to expense and net cash flow assumptions which decreased expected future gross profits, while the net charge of $7 million in 2010 was driven by changes in lapse rate and fee-based profit margin assumptions which also decreased expected future gross profits.

2010 to 2009 Annual Comparison. Adjusted operating income increased $78 million, from $494 million in 2009 to $572 million in 2010, primarily reflecting higher asset-based fee income and improved net investment spread results partially offset by an increase in general and administrative expenses, net of capitalization, and a less favorable benefit from reserve refinements.

Higher asset-based fees were driven by an increase in average full service fee-based retirement account values due to market appreciation and net additions, and higher fee-based investment-only stable value account values in our institutional investment products business driven by net additions.

Improved net investment spread results were driven by lower crediting rates on general account liabilities in our full service business and increased income from alternative investments. Lower crediting rates on general account liabilities in our full service business resulted from rate resets in the third quarter of 2009 and first quarter of 2010. Also contributing to the increase in net investment spread results were increased net settlements on floating-rate to fixed-rate interest rate swaps used to manage the duration of the investment portfolio. The increase in net swap settlements resulted from the generally favorable impact of lower interest rates on the swaps used to manage the duration of the investment portfolio primarily for our institutional investment products business. Partially offsetting the improvement in net investment spread results was the negative impact of a lower base of invested assets in our general account reflecting scheduled withdrawals from guaranteed investment products in our institutional investment products business partially offset by the positive impact of net additions in our structured settlement product and increases in balances in our full service general account stable value products.

Partially offsetting these increases in adjusted operating income was an increase in general and administrative expenses, net of capitalization, driven by expenses incurred in 2010 related to certain cost reduction initiatives. Also partially offsetting these increases in adjusted operating income was a less favorable benefit from reserve refinements, primarily due to a benefit in 2009 related to updates of client census data on our group annuity blocks of business.

Results for both 2010 and 2009 also include the impact of annual reviews of the assumptions used in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and value of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience. Adjusted operating income for 2010 and 2009 included charges of $18 million and $3 million, respectively, from the annual reviews. The quarterly adjustments for current period experience resulted in an $11 million benefit in 2010 compared to a $5 million charge in 2009, reflecting the cumulative impact on amortization of differences between actual gross profits for the period and the previously estimated expected gross profits for the period. Together, these items resulted in net charges included in adjusted operating income of $7 million for 2010 and $8 million in 2009. The net charge of $7 million in 2010 was driven by changes in lapse rate and fee-based profit margin assumptions which both decreased expected future gross profits.

Revenues

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $312 million, from $5,183 million in 2010 to $4,871 million in 2011. Premiums decreased $286 million, driven by lower life-contingent structured settlement and single premium annuity sales, partially offset by higher sales of non-participating group annuity separate accounts. The decrease in premiums resulted in a corresponding decrease in policyholders benefits, including the change in policy reserves, as 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. 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 fee-based investment-only stable value account values in our institutional investment products business, and an increase in average full service fee-based retirement 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.

2010 to 2009 Annual Comparison. Revenues increased $524 million, from $4,659 million in 2009 to $5,183 million in 2010. Premiums increased $464 million, driven by higher life-contingent structured settlement and single premium annuity sales which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. Policy charges and fee income and asset management fees and other income increased $131 million, primarily driven by an increase in asset-based fees due to an increase in average full service fee-based retirement account values and an increase in fee-based investment-only stable value account values in our institutional investment products business, as well as increased income from net settlements on interest rate swaps, as discussed above.

Partially offsetting these increases was a $71 million decrease in net investment income, primarily reflecting a smaller base of invested assets resulting from scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business, and lower portfolio yields, including lower interest rates on floating rate investments due to rate resets. Partially offsetting these declines were increases in net investment income from an increase in income on equity method alternative investments as discussed above.

Benefits and Expenses

2011 to 2010 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $338 million, from $4,611 million in 2010 to $4,273 million in 2011. Absent the impact of the annual reviews and other adjustments to the amortization of deferred policy acquisition costs and value of business acquired discussed above, which account for a $17 million increase, benefits and expenses decreased $355 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 as discussed above. Interest credited to policyholders account balances decreased $119 million including a refinement to the methodology applied in calculating reserves for certain structured settlement contracts, with an equally offsetting impact to amortization of deferred policy acquisition costs. Also contributing to the decrease were lower crediting rates on full service general account stable value account values due to rate resets and the impact of scheduled withdrawals on account values of our general account guaranteed investment products in our institutional investment products business, partially offset by the impact of higher account values from our full service general account stable value products and our structured settlement products. The amortization of deferred policy acquisition costs increased $24 million primarily driven by a refinement to the methodology applied in calculating the amortization of deferred policy acquisition costs for certain structured settlement contracts, as mentioned above. Also, general and administrative expenses, net of capitalization, decreased $3 million, driven by lower commission expenses due to a decline in life contingent structured settlement sales and lower charges related to certain cost reduction initiatives, partially offset by higher costs related to legal matters and strategic initiatives. In addition, interest expense decreased $3 million, reflecting lower interest rates.

2010 to 2009 Annual Comparison. Benefits and expenses increased $446 million, from $4,165 million in 2009 to $4,611 million in 2010. Policyholders benefits, including the change in policy reserves, increased $468 million, primarily reflecting an increase in change in policy reserves associated with the increase in premiums and a less favorable benefit from reserve refinements, as discussed above. Also, general and administrative expenses, net of capitalization, increased $67 million primarily driven by higher commission expenses, net of capitalization, higher asset management costs due to an increase in average full service fee-based retirement account values, and expenses incurred in 2010 related to certain cost reduction initiatives. These increases were partially offset by a decrease in interest credited to policyholders account balances of $73 million, primarily reflecting a smaller base of account values resulting from scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business, lower crediting rates on floating rate guaranteed investment products, and lower crediting rates on full service stable value account values due to rate resets. In addition, interest expense decreased $12 million reflecting lower interest rates and lower borrowings used to support investments.

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Sales Results and Account Values

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. These concepts do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Full Service(1):			
Beginning total account value	$ 141,313	$ 126,345	$ 99,738
Deposits and sales	16,821	19,266	23,188
Withdrawals and benefits	(19,160)	(16,804)	(14,438)
Change in market value, interest credited, interest income and other activity(2)	456	12,506	17,857
Ending total account value	$ 139,430	$ 141,313	$ 126,345
Net additions (withdrawals)	$ (2,339)	$ 2,462	$ 8,750
Institutional Investment Products(3):			
Beginning total account value	$ 64,183	$ 51,908	$ 50,491
Additions(4)	27,773	15,298	7,786
Withdrawals and benefits(5)	(6,150)	(6,958)	(7,817)
Change in market value, interest credited and interest income	4,581	3,370	2,287
Other(6)	(298)	565	(839)
Ending total account value(7)	$ 90,089	$ 64,183	$ 51,908
Net additions (withdrawals)(7)	$ 21,623	$ 8,340	$ (31)

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $5.8 billion, $5.8 billion and $5.4 billion as of December 31, 2011, 2010 and 2009, respectively.
(2) Other activity 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 $5.8 billion, $5.4 billion and $5.2 billion as of December 31, 2011, 2010 and 2009, respectively. Ending total account value for the institutional investment products business also includes $1.5 billion as of December 31, 2011, 2010 and 2009 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and $0.5 billion, $1.0 billion and $1.8 billion as of December 31, 2011, 2010 and 2009, respectively, related to affiliated funding agreements issued using the proceeds from the sale of Prudential Financial retail medium-term notes. For additional information regarding the FHLBNY and the retail medium-term notes program see, Liquidity and Capital Resources.
(4) Additions include $500 million in 2009 representing transfers of externally-managed client balances to accounts we manage. These additions are offset within Other, as there is no net impact on ending account values for these transfers.
(5) Withdrawals and benefits include $(78) million, $(752) million and $(488) million for 2011, 2010 and 2009, respectively, representing transfers of client balances from accounts we manage to externally-managed accounts. These withdrawals are offset within Other, as there is no net impact on ending account values for these transfers.
(6) Other includes transfers from (to) the Asset Management segment of $(415) million, $(164) million and $(11) million for 2011, 2010 and 2009, respectively. Other also includes $78 million, $752 million and $(12) million for 2011, 2010 and 2009, respectively, representing net transfers of externally-managed client balances from/(to) accounts we manage. These transfers are offset within Additions or Withdrawals and benefits, as there is no net impact on ending account values for this transfer. Remaining amounts for all periods presented primarily represent changes in asset balances for externally-managed accounts.
(7) Ending total account value for the institutional investment products business includes investment-only stable value account values of $41.3 billion, $17.7 billion and $4.8 billion as of December 31, 2011, 2010 and 2009, respectively. Net additions (withdrawals) for the institutional investment products business include investment-only stable value account value additions of $23.9 billion, $12.6 billion and $4.8 billion for 2011, 2010 and 2009, respectively.

2011 to 2010 Annual Comparison. Account values in our full service business amounted to $139.4 billion as of December 31, 2011 representing a decrease of $1.9 billion from December 31, 2010. The decrease was primarily driven by net withdrawals over the last twelve months. Net additions (withdrawals) decreased $4.8 billion, from net additions of $2.5 billion in 2010 to net withdrawals of $2.3 billion in 2011, primarily reflecting lower new plan sales and higher plan lapses. New plan sales in 2011 included five client sales over $100 million totaling $922 million compared to twelve client sales over $100 million in 2010 totaling $3.3 billion. The increase in plan lapses was primarily driven by higher account values and a higher volume of large plan lapses in 2011.

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Account values in our institutional investment products business amounted to $90.1 billion as of December 31, 2011, representing an increase of $25.9 billion from December 31, 2010. The increase was driven by additions of our fee-based 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 due to scheduled withdrawals and benefit payments. Net additions increased $13.3 billion, from $8.3 billion in 2010 to $21.6 billion in 2011 primarily reflecting higher sales of our fee-based investment-only stable value and longevity reinsurance products, and lower general account guaranteed investment product scheduled withdrawals.

2010 to 2009 Annual Comparison. Account values in our full service business amounted to $141.3 billion as of December 31, 2010, an increase of $15.0 billion from December 31, 2009 primarily driven by an increase in the market value of customer funds due to favorable equity markets and, to a lesser extent, net additions in 2010. Net additions decreased $6.3 billion, from $8.8 billion in 2009 to $2.5 billion in 2010, primarily reflecting lower new plan sales, as 2009 included significant large plan sales, and, to a lesser extent, higher plan lapses. New plan sales in 2010 included twelve client sales over $100 million totaling $3.3 billion compared to twelve client sales over $100 million in 2009, which totaled $7.5 billion.

Account values in our institutional investment products business amounted to $64.2 billion as of December 31, 2010, an increase of $12.3 billion from December 31, 2009. The increase in account values was primarily driven by additions of fee-based investment-only stable value products and increases in the market value of customer funds, primarily from a decline in fixed income market yields and interest credited on general account liabilities. These increases were partially offset by declines in general account guaranteed investment product account values due to scheduled withdrawals. Net additions (withdrawals) increased $8.4 billion, from net withdrawals of $31 million in 2009 to net additions of $8.3 billion in 2010 primarily reflecting higher sales of fee-based investment-only stable value 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, 2011	2010	2009
		(in millions)	
Operating results:			
Revenues	$ 2,311	$ 1,888	$ 1,257
Expenses	1,652	1,401	1,202
Adjusted operating income	659	487	55
Realized investment gains (losses), net, and related adjustments(1)	(1)	13	(32)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	98	29	(14)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 756	$ 529	$ 9

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(2) 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 income taxes and equity in 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 relate to the equity interests of minority investors.

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Adjusted Operating Income

2011 to 2010 Annual Comparison. Adjusted operating income increased $172 million, from $487 million in 2010 to $659 million in 2011. Results in 2011 reflect an increase in asset management fees, before associated expenses, of $194 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 addition, 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 contributing to the increase in adjusted operating income was an increase in results of the segment s strategic investing activities of $68 million primarily due to a $64 million gain resulting from the partial sale of a real estate seed investment in 2011.

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

2010 to 2009 Annual Comparison. Adjusted operating income increased $432 million, from $55 million in 2009 to $487 million in 2010 primarily reflecting more favorable results from commercial mortgage activities and more favorable investment results from strategic investing activities, as well as increased asset management fees. Asset management fees increased $224 million, before associated expenses, primarily from retail and institutional customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Results from the segment s commercial mortgage activities increased primarily driven by lower net credit and valuation-related charges on interim loans of $190 million.

Results from strategic investing activities increased $103 million, from a loss of $70 million in 2009 to income of $33 million in 2010, primarily due to improved results in real estate and fixed income investments. Real estate strategic investing results in 2009 reflect losses of $70 million, compared to income of $16 million in 2010, primarily reflecting the impact of declines in real estate values on co-investments and seed investments in the prior year. Results in 2009 also reflect losses of $11 million in a fixed income fund compared to zero in 2010. The Asset Management segment redeemed its entire investment in the fixed income fund as of June 30, 2009. In addition, strategic investing fixed income investment results in 2009 included impairments of $10 million on collateralized debt obligations, which as of December 31, 2010, have an amortized cost of zero.

Results in 2010 also reflect an increase in performance-based incentive fees primarily related to institutional real estate funds. These increases were partially offset by an increase in compensation expenses and lower income related to securities lending activities.

Revenues

The following tables set forth the Asset Management segment s revenues, presented on a basis consistent with the table above under Operating Results, by type and asset management fees by source for the periods indicated.

	Year ended December 31,		
	2011	**2010(4)**	**2009(4)**

	(in millions)		
Revenues by type:			
Asset management fees by source:			
Institutional customers	$ 714	$ 626	$ 511
Retail customers(1)	426	353	268
General account	327	294	270
Total asset management fees	1,467	1,273	1,049
Incentive fees	50	71	49
Transaction fees	35	23	27
Strategic investing	118	49	(41)
Commercial mortgage(2)	136	67	(114)
Total incentive, transaction, strategic investing and commercial mortgage revenues	339	210	(79)
Service, distribution and other revenues(3)	505	405	287
Total revenues	$ 2,311	$ 1,888	$ 1,257

(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 $74 million in 2011, $66 million in 2010 and $61 million in 2009.
(4) Reflects reclassifications to conform to current year presentation.

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $423 million, from $1,888 million in 2010 to $2,311 million in 2011. Asset management fees increased $194 million primarily from institutional and retail customer assets as a result of higher asset values from positive net asset flows and market appreciation. Service, distribution and other revenues increased $100 million from 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 a $64 million gain on a partial sale of a real estate seed investment in 2011.

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 these incentive-based fees are offset in incentive compensation expense in accordance with the terms of the 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, 2011, $92 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $146 million as of December 31, 2010. 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 conditions, and other domestic and international market conditions.

2010 to 2009 Annual Comparison. Revenues increased $631 million, from $1,257 million in 2009 to $1,888 million in 2010. Asset management fees increased $224 million primarily from institutional and retail customer assets as a result of higher asset values from market appreciation and positive net asset flows. Commercial mortgage revenues increased $181 million primarily reflecting lower net credit and valuation-related charges on interim loans, as discussed above. Service, distribution and other revenues increased $118 million primarily from higher mutual fund service fees and assets under management, with a corresponding increase in expense. Also contributing to the increase were higher revenues in certain consolidated real estate funds, which were fully offset by higher expenses related to noncontrolling interests in these funds. Strategic investing revenues increased $90 million reflecting improved results in real estate and fixed income investments, as discussed above. In addition, incentive fees increased $22 million primarily related to institutional real estate funds. A portion of these incentive-based fees are offset in incentive compensation expense in accordance with the terms of the 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, 2010, $146 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $150 million as of December 31, 2009.

Expenses

2011 to 2010 Annual Comparison. Expenses, as shown in the table above under Operating Results, increased $251 million, from $1,401 million in 2010 to $1,652 million in 2011 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.

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2010 to 2009 Annual Comparison. Expenses increased $199 million, from $1,202 million in 2009 to $1,401 million in 2010 primarily driven by increased compensation costs due to higher incentive compensation, from increased revenues, as discussed above. In addition, expenses related to revenues associated with certain consolidated real estate funds and mutual funds services increased, as discussed above.

Assets Under Management

The following tables set forth assets under management by asset class and source as of the dates indicated and net additions, excluding money market activity, by source for the periods indicated. In managing our business, we analyze assets under management, which do not correspond to U.S. GAAP assets, because the principal source of revenues are fees based on assets under management.

	December 31,		
	2011	2010	2009
		(in billions)	
Assets Under Management (at fair market value):			
Institutional customers:			
Equity	$ 44.2	$ 51.3	$ 47.9
Fixed income	197.2	160.4	120.3
Real estate	27.7	23.6	20.2
Institutional customers(1)(2)	269.1	235.3	188.4
Retail customers:			
Equity	70.8	72.7	58.2
Fixed income	45.7	27.0	24.6
Real estate	1.4	1.5	1.6
Retail customers(3)	117.9	101.2	84.4
General account:			
Equity	4.2	4.1	3.7
Fixed income	226.6	195.8	179.3
Real estate	1.3	0.9	1.0
General account	232.1	200.8	184.0
Total assets under management	$ 619.1	$ 537.3	$ 456.8

	Year ended December 31,		
	2011	2010	2009
		(in billions)	
Net additions, excluding money market activity:			
Third party:			
Institutional customers(4)	$ 16.7	$ 28.6	$ 13.0
Retail customers	3.5	6.4	6.1
Affiliated:			
Institutional customers	(2.8)	(1.5)	(0.6)
Retail customers	14.4	1.9	(1.4)
General account	14.3	0.5	(5.1)
Total net additions, excluding money market activity	$ 46.1	$ 35.9	$ 12.0

(1) Consists of third party institutional assets and group insurance contracts.
(2) As of December 31, 2011, 2010, and 2009, includes $29.7 billion, $17.7 billion, and $4.0 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.
(4) As of December 31, 2011, 2010, and 2009, includes $10.0 billion, $10.2 billion, and $0.7 billion, respectively, of net additions related to investment-only stable value products.

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2011 to 2010 Annual Comparison. Assets under management were $619.1 billion at December 31, 2011, an increase of $81.8 billion from December 31, 2010. Institutional assets under management increased $33.8 billion from 2010 to 2011 driven by market appreciation of $19.7 billion, as well as net additions of $16.7 billion from third party clients, primarily from positive flows into fixed income accounts, including $10.0 billion of net additions associated with investment-only stable value products. Retail assets under management increased $16.7 billion from 2010 to 2011 primarily from a net increase in affiliated assets under management of $14.1 billion, primarily from variable annuity assets rebalancing into a fixed income fund, as well as net additions of $3.5 billion from third party clients. General account assets increased $31.3 billion primarily driven by $15.2 billion in net additions from the acquisition of the Star and Edison Businesses and fixed income market appreciation of $17.2 billion.

2010 to 2009 Annual Comparison. Assets under management were $537.3 billion at December 31, 2010, an increase of $80.5 billion from December 31, 2009. Institutional assets under management increased $46.9 billion from 2009 to 2010 driven by market appreciation of $20.6 billion, as well as net additions of $28.6 billion from third party clients, primarily from positive flows into fixed income accounts, including $10.2 billion of net additions associated with investment-only stable value products. Retail assets under management increased $16.8 billion from 2009 to 2010 driven primarily by market appreciation of $10.9 billion, as well as third-party net additions of $6.4 billion, primarily from positive net flows into equity accounts from existing clients. General account assets increased $16.8 billion driven by market appreciation.

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, 2011	December 31, 2010
	(in millions)	
Co-Investments:		
Real Estate	$ 464	$ 361
Fixed Income	30	29
Seed Investments:		
Real Estate	19	251
Public Equity	189	119
Fixed Income	200	102
Loans Secured by Investor Equity Commitments or Fund Assets:		
Real Estate secured by Investor Equity	50	2
Private Equity secured by Investor Equity	61	14
Real Estate secured by Fund Assets	99	198
Total	$ 1,112	$ 1,076

Commercial Mortgage Interim Loan Portfolio

The following table sets forth information regarding the interim loan portfolio of the Asset Management segment s commercial mortgage operations as of the dates indicated.

	December 31, 2011	December 31, 2010
	($ in millions)	
Interim Loan Portfolio:		
Principal balance of loans outstanding(1)	$ 648	$ 1,336
Allowance for credit or valuation-related losses	$ 44	$ 168
Weighted average loan-to-value ratio(2)(3)	93%	108%
Weighted average debt service coverage ratio(2)	1.52	1.24

(1) As of December 31, 2011 and 2010, excludes $10 million and $29 million, respectively, of commitments for future fundings that would need to be disbursed if borrowers meet the conditions for these fundings and $44 million and $69 million, respectively, of commercial real estate held for sale related to foreclosed interim loans.

(2) A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios.
(3) For those loans where the loan amount is greater than the collateral value, the excess of the loan amount over the collateral value was $42 million and $171 million as of December 31, 2011 and 2010, respectively.

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,		
	2011	2010	2009
		(in millions)	
Operating results:			
Revenues	$ 2,900	$ 2,815	$ 2,768
Benefits and expenses	2,383	2,315	2,206
Adjusted operating income	517	500	562
Realized investment gains (losses), net, and related adjustments(1)	(21)	(39)	134
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 496	$ 461	$ 696

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

Adjusted Operating Income

2011 to 2010 Annual Comparison. Adjusted operating income increased $17 million, from $500 million in 2010 to $517 million in 2011. Results for both periods include a benefit from lower amortization of deferred policy acquisition costs, net of related unearned revenue reserves and net decreases in insurance reserves, reflecting updates of our actuarial assumptions based on annual reviews. The annual reviews cover assumptions used in our estimates of total gross profits which form the basis for amortizing deferred policy acquisition costs and unearned revenue reserves, as well as the reserve for the guaranteed minimum death benefit feature in certain contracts. Results in 2011 included a $75 million benefit from the annual reviews, primarily reflecting updates to our persistency assumptions as a result of more favorable lapse experience on variable life policies, and improved mortality based on experience. Adjusted operating income for 2010 included a $52 million benefit from the annual reviews, primarily reflecting methodology refinements to the treatment of certain investment income in our assumptions, as well as improved mortality based on experience.

Absent the effect of these items, adjusted operating income for 2011 decreased $6 million from 2010 including a $23 million increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, resulting from changes in our estimates of total gross profits arising from separate account fund performance, which is described in more detail below. This increase in amortization largely reflects the impact of equity markets on separate account fund performance in the respective periods. The decrease in adjusted operating income also reflects the decline in earnings from our variable products primarily due to the runoff of variable policies in force. These decreases to adjusted operating income were partially offset by higher net investment spread income driven by higher asset balances supporting growth in our universal life insurance products, as well as the impact from mortality experience, net of reinsurance, which was $12 million less unfavorable relative to expected levels, compared to 2010.

The changes in our estimates of total gross profits arising from separate account fund performance, as discussed above, reflects the impact on our estimates of total gross profits of the difference between our actual quarterly rate of return on separate accounts compared to our previously expected quarterly rate of return. The following table shows the actual quarterly rate of return on separate accounts for the four quarters of 2011 and 2010 compared to our previously expected quarterly rate of return used in our estimates of total gross profits.

	2011				2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Actual rate of return	4.4%	0.4%	(11.6)%	7.0%	3.8%	(7.4)%	8.3%	7.3%
Expected rate of return	2.2%	2.0%	2.1%	2.5%	2.6%	2.6%	2.6%	2.5%

The overall lower than expected market returns in 2011 resulted in a decrease in total future gross profits by establishing a lower starting point for the fund balances used in estimating those profits in future periods. The decrease in our estimates of total gross profits resulted in a $9 million net expense in 2011 reflecting a higher required rate of amortization of deferred policy acquisition costs, partially offset by a higher required rate of amortization of unearned revenue reserves. The overall actual rate of return on separate account funds for 2010 was higher than our expected rate of return which resulted in an increase in total future gross profits by establishing a higher starting point for the fund balances used in estimating those profits in future periods. The increase in our estimates of total gross profits resulted in a $14 million net benefit in 2010 reflecting a lower required rate of amortization of deferred policy acquisition costs, partially offset by a lower required rate of amortization of unearned revenue reserves. For a further discussion of the assumptions, including our current near-term and long-term projected rates of return, used in estimating total gross profits used as the basis for amortizing deferred policy acquisition costs and unearned revenue reserves, see Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

2010 to 2009 Annual Comparison. Adjusted operating income decreased $62 million, from $562 million in 2009 to $500 million in 2010. Results in 2010 included a $52 million benefit from lower amortization of net deferred policy acquisition costs and unearned revenue reserves, as well as a decrease in reserves for the guaranteed minimum death benefit feature in certain contracts, reflecting updates of our actuarial assumptions based on an annual review, compared to a $55 million benefit from the annual review in 2009. The annual reviews cover assumptions used in our estimates of total gross profits which form the basis for amortizing deferred policy acquisition costs and unearned revenue reserves, as well as the reserve for the guaranteed minimum death benefit feature in certain contracts. Results in 2009 also included a $30 million benefit from compensation received based on multi-year profitability of third-party products we distribute. These compensation arrangements are subject to renegotiations periodically which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements was renegotiated in 2008 and the profit opportunities were reduced significantly in 2010 and beyond resulting in a benefit of less than $1 million in 2010.

Absent the effect of these items, adjusted operating income in 2010 decreased $29 million, including $33 million from mortality experience, net of reinsurance, which was slightly unfavorable relative to expected levels in 2010, compared to favorable mortality experience in 2009. The decrease in adjusted operating income also reflects a $17 million increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, reflecting a net expense of $1 million in 2010 compared to a net benefit of $16 million in 2009, resulting from changes in our estimates of total gross profits primarily from variable products arising from separate account fund performance and policyholder experience. This increase in amortization largely reflects the impact of equity markets on separate account fund performance in the respective periods, partially offset by the impact of policyholder persistency which in 2010 returned to levels that are more consistent with expectations. The decline in our in force block of variable life business also contributed to the decrease in adjusted operating income. Partially offsetting the decrease in adjusted operating income was higher net investment income from an increase in assets supporting our term and universal life products, growth in universal life policyholder account balances and the impact of gains in 2010 on investments in real property separate account funds compared to losses in 2009.

Revenues

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $85 million, from $2,815 million in 2010 to $2,900 million in 2011. Net investment income increased $75 million reflecting higher asset balances supporting growth in our universal life insurance products including higher account balances resulting from increased policyholder deposits and higher regulatory capital requirements. Policy charges and fees and asset management fees and other income increased $8 million. This increase included a $24 million reduction in amortization of unearned revenue reserves due to annual reviews of assumptions. Absent this item, policy charges and fees and asset management fees and other income increased $32 million driven by an increase in current period amortization of unearned revenue reserves due to changes in our estimates of total gross profits primarily reflecting the impact of less favorable market conditions on separate account fund performance in 2011 compared to 2010, as well as the impact of higher actual gross profits during the period. These increases were partially offset by a decline in revenue from our variable insurance products, primarily due to the runoff of variable policies in force.

2010 to 2009 Annual Comparison. Revenues increased $47 million, from $2,768 million in 2009 to $2,815 million in 2010. Net investment income increased $94 million, due to an increase in assets supporting our term and universal life products and growth in universal life and variable policyholder account balances due to increased policyholder deposits, as well as gains in 2010 on investments in real property separate account funds compared to losses in 2009. Premiums increased $28 million, primarily due to growth of our in force block of term insurance. Policy charges and fees and asset management fees and other income decreased $75 million including a $31 million decrease in amortization of unearned revenue reserves due to annual reviews of assumptions, and a $30 million decrease in compensation received based on multi-year profitability of third-party products we distribute, as discussed above. Absent these items policy charges and fees and asset management fees and other income decreased $14 million, driven by a decrease in amortization of unearned revenue reserves reflecting the impact of policyholder persistency which, in 2010, returned to levels more consistent with expectations and mortality experience, partially offset by an increase in the amortization of unearned revenue reserves from the impact of less favorable market conditions on separate account fund performance in 2010. The decrease in policy charges and fees and asset management fees and other income also reflected higher costs on net settlements of interest rate swaps associated with our floating rate debt due to lower interest rates in 2010, offset by lower interest expense, as discussed below, partially offset by an increase in asset management fees resulting from higher separate account fund balances.

Benefits and Expenses

2011 to 2010 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $68 million, from $2,315 million in 2010 to $2,383 million in 2011. Absent the impact of annual reviews conducted in both periods, benefits and expenses increased $115 million, from $2,468 million in 2010 to $2,583 million in 2011. On this basis, amortization of deferred policy acquisition costs increased $26 million driven by changes in estimated total gross profits primarily reflecting the impact of less favorable market conditions on separate account fund performance in 2011 compared to 2010, as well as the impact of higher actual gross profits on current period amortization. Absent the impact of the annual reviews, policyholders benefits, including interest credited to policyholders account balances, increased $15 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. Partially offsetting the increase in policyholders benefits, including interest credited to policyholders account balances, was less unfavorable mortality experience of $12 million in 2011 compared to 2010. Interest expense increased $52 million primarily reflecting higher borrowings related to the financing of regulatory capital requirements associated with statutory reserves for certain term and universal life insurance policies.

2010 to 2009 Annual Comparison. Benefits and expenses increased $109 million, from $2,206 million in 2009 to $2,315 million in 2010. Absent the net $28 million decrease from the impacts of the annual reviews conducted in both periods, benefits and expenses increased $137 million, from $2,331 million in 2009 to $2,468 million in 2010. Absent the impact of the annual reviews, policyholders benefits, including interest credited to policyholders, increased $141 million due to growth in universal life and variable policyholder account balances, increases in policyholder reserves, and growth in our in force block of term and universal life business. In addition, mortality experience was slightly unfavorable, relative to expected levels in 2010, compared to favorable mortality experience in 2009 contributing $33 million to the increase in policyholder benefits. Also absent the impact of the annual reviews, amortization of deferred policy acquisition costs increased $23 million primarily due to the less favorable impact of equity markets on separate account fund performance, partially offset by both the impact of policyholder persistency which in 2010 returned to levels more consistent with expectations, as well as mortality experience. Partially offsetting these items was a decrease in interest expense of $19 million primarily driven by a decline in interest rates on floating rate debt. This floating rate debt is swapped to a fixed rate using interest rate swaps.

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Sales Results

The following table sets forth individual life insurance annualized new business premiums for the periods indicated. In managing our individual life insurance business, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP, because annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year excess premiums and deposits.

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Annualized New Business Premiums(1):			
Variable Life	$ 25	$ 23	$ 20
Universal Life	95	77	113
Term Life	158	160	226
Total	$ 278	$ 260	$ 359
Annualized new business premiums by distribution channel(1):			
Prudential Agents	$ 84	$ 84	$ 95
Third party	194	176	264
Total	$ 278	$ 260	$ 359

(1) Annualized scheduled premiums plus 10% of excess (unscheduled) and single premiums from new sales. Excludes corporate-owned life insurance.

2011 to 2010 Annual Comparison. Sales of new life insurance, measured as described above, increased $18 million, from $260 million in 2010 to $278 million in 2011, primarily driven by increased sales in the third party distribution channel reflecting a $18 million increase in sales of universal life insurance products driven by a change in the competitive position of our products due to pricing.

2010 to 2009 Annual Comparison. Sales of new life insurance, measured as described above, decreased $99 million, from $359 million in 2009 to $260 million in 2010. The decrease in sales is primarily due to a $66 million decrease in term life product sales and a $36 million decrease in sales of universal life products driven by lower third party distribution sales. Sales from the third party distribution channel were $88 million lower than 2009 due to lower sales of universal life and term life products, both of which were impacted by price increases implemented in 2009. Sales by Prudential Agents were $11 million lower than 2009 primarily due to lower sales of both universal life products and term life products.

Policy Surrender Experience

The following table sets forth the individual life insurance business policy surrender experience for variable and universal life insurance, measured by cash value of surrenders, for the periods indicated. These amounts do not correspond to expenses under U.S. GAAP. In managing this business, we analyze the cash value of surrenders because it is a measure of the degree to which policyholders are maintaining their in force business with us, a driver of future profitability. Generally, our term life insurance products do not provide for cash surrender values.

	Year ended December 31, 2011	2010	2009
	($ in millions)		
Cash value of surrenders	$ 778	$ 697	$ 855
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	3.3%	3.0%	4.2%

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2011 to 2010 Annual Comparison. The total cash value of surrenders increased $81 million, from $697 million in 2010 to $778 million in 2011, driven by the surrenders of three large variable corporate-owned life insurance policies during 2011. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances increased from 3.0% in 2010 to 3.3% in 2011 as a result of these large surrenders.

2010 to 2009 Annual Comparison. The total cash value of surrenders decreased $158 million, from $855 million in 2009 to $697 million in 2010, as surrenders in 2010 returned to levels that are more consistent with expectations compared to 2009. 2009 reflects a greater volume of surrenders, including lapses to extended term, of variable life insurance, due primarily to market conditions at the time and policyholders electing to surrender their policies rather than make premium payments or the contractually required deposits needed to keep the policies in force. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances decreased from 4.2% in 2009 to 3.0% in 2010, driven by a decrease in the total cash value of surrenders as described above, as well as higher average account balances primarily driven by market appreciation during 2010.

Group Insurance

Operating Results

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

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Operating results:			
Revenues	$ 6,068	$ 5,458	$ 5,285
Benefits and expenses	5,860	5,243	4,954
Adjusted operating income	208	215	331
Realized investment gains (losses), net, and related adjustments(1)	59	(21)	(227)
Related charges(2)	(2)	(1)	(7)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 265	$ 193	$ 97

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on interest credited to policyholders account balances.

Adjusted Operating Income

2011 to 2010 Annual Comparison. Adjusted operating income decreased $7 million, from $215 million in 2010 to $208 million in 2011. Reserve refinements in both group life and group disability businesses, including the impact of annual reviews, contributed a $26 million benefit to adjusted operating income in 2011 compared to a benefit of $28 million in 2010. Excluding these reserve refinements, adjusted operating income decreased $5 million primarily from 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, the decrease in adjusted operating income reflects higher operating expenses in 2011 resulting from business growth and strategic initiatives as well as a decrease in investment results in 2011 due to less favorable results from alternative investments and the impact of the current low interest rate environment on portfolio yields. These decreases were partially offset by more favorable underwriting results in 2011 in our group life business related to favorable claims experience and growth in our non-retrospectively experience-rated business. In addition, 2011 included a $14 million benefit from cumulative premium adjustments relating to prior periods on two large group life non-retrospectively experience-rated cases.

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2010 to 2009 Annual Comparison. Adjusted operating income decreased $116 million, from $331 million in 2009 to $215 million in 2010. Results reflected a net benefit of $28 million in 2010, from reserve refinements in both the group life and group disability businesses, including the impact of annual reviews, compared to a net benefit of zero in 2009. Excluding this item, adjusted operating income decreased $144 million primarily reflecting less favorable underwriting results in 2010 on group life non-retrospectively experience-rated business largely due to the lapse of certain business and repricing of other business up for renewal with favorable claims experience in 2009, reflecting the competitive market, as well as less favorable claims experience due to an increase in the number and severity of claims. In addition, underwriting results reflect less favorable long-term disability claims experience in 2010 consistent with the economic downturn. Also contributing to the decrease in adjusted operating income were higher operating expenses primarily to support disability operations and expansion into the group dental market, and an unfavorable impact from the refinement of a premium tax estimate.

Revenues

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $610 million, from $5,458 million in 2010 to $6,068 million in 2011. Group life premiums and policy charges and fee income increased $526 million, from $3,539 million in 2010 to $4,065 million in 2011. 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 an increase of $14 million from premium adjustments on two large group life non-retrospectively experience-rated cases, as discussed above. In addition, group disability premiums and policy charges and fee income, which include long-term care and dental products, increased by $71 million, from $1,146 million in 2010 to $1,217 million in 2011 primarily reflecting growth of business in force and from new sales partially offset by higher premiums in 2010 associated with the assumption of existing liabilities from third parties, which is offset in policyholders benefits, as discussed below. Also, contributing to the increase in revenue is higher investment income in 2011 primarily from higher invested assets due to growth in the businesses offset by lower portfolio yields and lower income on alternative investments in 2011.

2010 to 2009 Annual Comparison. Revenues increased by $173 million, from $5,285 million in 2009 to $5,458 million in 2010. Group life premiums and policy charges and fee income increased by $125 million, from $3,414 million in 2009 to $3,539 million in 2010, primarily reflecting higher premiums from retrospectively experience-rated group life business resulting from the increase in policyholder benefits on these contracts as discussed below. Also contributing to the increase were higher premiums from non-retrospectively experience-rated group life business primarily reflecting growth of business in force resulting from new sales, partially offset by a decrease in premiums associated with the assumption of existing liabilities from third parties, which is offset in policyholders benefits, as discussed below, as well as the lapse of certain business and repricing of other business up for renewal, as discussed above. Group disability premiums and policy charges and fee income, which include long-term care and dental products, increased by $25 million, from $1,121 million in 2009 to $1,146 million in 2010. This increase primarily reflects higher premiums due to growth of business in force resulting from new sales, and continued strong persistency of 92.1% in 2010 compared to 90.9% in 2009, partially offset by a decrease in premiums associated with the assumption of existing liabilities from third parties, which is offset in policyholders benefits, as discussed below.

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Benefits and Expenses

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

	Year ended December 31,		
	2011	**2010**	**2009**
Benefits ratio(1):			
Group life	89.5%	89.7%	88.4%
Group disability	97.5%	94.7%	88.9%
Administrative operating expense ratio(2):			
Group life	8.3%	8.8%	9.0%
Group disability	21.4%	21.3%	18.3%

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

2011 to 2010 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $617 million, from $5,243 million in 2010 to $5,860 million in 2011. This increase reflects a $566 million increase in policyholders benefits, including the change in policy reserves, from $4,259 million in 2010 to $4,825 million in 2011. 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, partially offset by the effect of the assumption of existing liabilities from third parties in 2010, which is offset in premiums, as discussed above. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth and strategic initiatives.

The group life benefits ratio improved 0.2 percentage points from 2010 to 2011, primarily due to favorable claims experience, partially offset by an unfavorable variance from the impact of reserve refinements, including the impact of annual reviews, in 2011, as discussed above. The group disability benefits ratio deteriorated 2.8 percentage points from 2010 to 2011 primarily due to unfavorable long-term disability claims experience, partially offset by a favorable variance from the impact of reserve refinements, including the impact of annual reviews, in 2011, as discussed above. The group life administrative operating expense ratio improved 0.5 percentage points from 2010 to 2011 due to business growth without a commensurate increase in expenses and a favorable impact from the refinement of a premium tax estimate. The group disability administrative operating expense ratio was relatively unchanged from 2010 to 2011 as the impact from higher expenses in 2011 primarily from business growth and strategic initiatives was offset by a favorable impact from the refinement of a premium tax estimate.

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $289 million, from $4,954 million in 2009 to $5,243 million in 2010. This increase reflects a $243 million increase in policyholders benefits, including the change in policy reserves, from $4,016 million in 2009 to $4,259 million in 2010, from both group life and group disability businesses. Our group life business reflected an increase in policyholders benefits from less favorable claims experience, including an increase in benefits on retrospectively experience-rated business that resulted in increased premiums, partially offset by the benefit of reserve refinements in 2010 and a decrease in policyholder benefits associated with the assumption of existing liabilities from third parties, which is offset in premiums, as discussed above. Our group disability business also reflected less favorable claims experience, partially offset by a decrease in policyholder benefits associated with the assumption of existing liabilities from third parties, which is offset in premiums, as discussed above. Also contributing to the increase in benefits and expenses were higher operating expenses, as discussed above.

The group life benefits ratio deteriorated 1.3 percentage points from 2009 to 2010, due to less favorable claims experience due to an increase in the number and severity of claims, as well as the lapse of certain business and repricing of other business up for renewal with favorable claims experience in 2009, reflecting the competitive market, partially offset by the favorable impact of the reserve refinements. The group disability benefits ratio deteriorated 5.8 percentage points from 2009 to 2010, primarily due to less favorable long-term disability claims experience combined with an unfavorable impact from reserve refinements, including the impact of the annual reviews. The group life administrative operating expense ratio was relatively unchanged from 2009 to 2010. The group disability administrative operating expense ratio deteriorated 3.0 percentage points from 2009 to 2010, primarily due to higher costs to support disability operations and expansion into the group dental market, lower premiums associated with the assumption of existing liabilities from third parties, as well as an unfavorable impact from the refinement of a premium tax estimate.

Sales Results

The following table sets forth the Group Insurance segment s annualized new business premiums for the periods indicated. In managing our group insurance business, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP, because annualized new business premiums measure the current sales performance of the business unit, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income, in addition to current sales.

	Year ended December 31,		
	2011	**2010**	**2009**
		(in millions)	
Annualized new business premiums(1):			
Group life	$ 486	$ 446	$ 339
Group disability(2)	204	161	238
Total	$ 690	$ 607	$ 577

(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 long-term care and dental products.

2011 to 2010 Annual Comparison. Total annualized new business premiums increased $83 million, from $607 million in 2010 to $690 million in 2011. Group life sales increased $40 million driven by higher large case sales to new customers. Group disability sales, which include long-term care and dental products, increased $43 million primarily due to higher sales across all products.

2010 to 2009 Annual Comparison. Total annualized new business premiums increased $30 million, from $577 million in 2009 to $607 million in 2010. Group life sales increased $107 million driven primarily by increased large case sales to new customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties during 2010. Group disability sales decreased $77 million primarily due to lower sales of large case disability products to both new and existing customers, as well as a decrease in long-term care sales.

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 earnings or our equity in foreign subsidiaries. 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 including Star and Edison net of expected integration-related costs, as well as Korea and Taiwan. 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 also seek to mitigate the impact of foreign currency exchange rate movements on our U.S. dollar-equivalent equity in foreign subsidiaries through various hedging strategies. In our Japanese insurance subsidiaries, we hedge a portion of the estimated available economic capital of the business using a variety of instruments, including U.S. dollar-denominated assets 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. We are evaluating the hedging strategy related to our Japanese insurance subsidiaries to consider the Japanese operations relative contribution to the Company s overall return on equity which may result in a change in the amount of yen exposure we hedge. In our Taiwan insurance operation, the U.S. GAAP equity exposure is mitigated by holding a variety of instruments, including U.S. dollar-denominated investments. During 2009 and 2010, we terminated our hedges of the U.S. GAAP equity exposure of our other foreign operations, excluding our Japan and Taiwan insurance operations, due to a variety of considerations including a desire to limit the potential for cash settlement outflows that would result from strengthening foreign currencies. For further information on the various instruments used to mitigate the risks of foreign currency exchange rate movements on our U.S. dollar-equivalent equity in foreign subsidiaries, see Impact of foreign currency exchange rate movements on equity.

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 earnings and U.S. dollar-equivalent equity in our Japanese insurance subsidiaries for the periods indicated.

	December 31, 2011	December 31, 2010
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	$ 2.5	$ 2.5
Dual currency and synthetic dual currency investments(2)	1.0	0.9
	3.5	3.4
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity:		
U.S. dollar-denominated assets held in yen-based entities(3)	6.9	6.2
Yen-denominated liabilities held in U.S.-based entities(4)	0.8	0.8
	7.7	7.0
Total hedges	$ 11.2	$ 10.4
Total U.S. GAAP equity of Japanese insurance subsidiaries, as adjusted(5)	$ 10.7	$ 5.7

(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 $24.5 billion and $10.2 billion as of December 31, 2011 and 2010, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations, of which $11.7 billion as of December 31, 2011 supports U.S. dollar-denominated products issued by Star and Edison.
(4) The yen-denominated liabilities are reported in Corporate and Other operations.

(5) Excludes "Accumulated other comprehensive income (loss)" components of equity and certain other adjustments.

The U.S. dollar-denominated investments that hedge the U.S. GAAP equity exposure in our Japanese insurance operations pay a coupon, which is reflected within "Net investment income," and, therefore, included in adjusted operating income, which is generally higher than what a similar yen-based investment would pay.

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The incremental impact of this higher yield of 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 Realized Investment Gains and Losses and General Account Investments 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 for all periods presented reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment s non-U.S. dollar-denominated earnings in certain countries 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 from the hedged currency in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. 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 U.S. dollar-denominated earnings that will be generated by U.S. dollar-denominated products and investments, both of which are discussed in greater detail below. As a result of this intercompany arrangement, our International Insurance segment results for 2011 reflect the impact of translating yen and Korean won-denominated earnings at fixed currency exchange rates of 92 yen per U.S. dollar and 1190 Korean won per U.S. dollar. Results for 2012 will reflect the impact of translating yen and Korean won-denominated earnings at fixed currency exchange rates of 85 yen per U.S. dollar and 1180 Korean won per U.S. dollar.

Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segment at the fixed rate and the gains or losses recorded from the forward currency contracts that settled during the period, which includes 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,		
	2011	2010	2009
		(in millions)	
International Insurance Segment:			
Impact of intercompany arrangement(1)	$ (221)	$ (99)	$ (35)
Corporate and Other operations:			
Impact of intercompany arrangement(1)	221	99	35
Settlement gains/(losses) on forward currency contracts	(176)	(93)	(32)
Net benefit to Corporate and Other operations	45	6	3
Net impact on revenues and adjusted operating income	$ (176)	$ (93)	$ (32)

(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 both December 31, 2011 and 2010, the notional amounts of these forward currency contracts were $3.0 billion, of which $2.5 billion 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 are yen-denominated while the related

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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, excluding Star and Edison, 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 Japanese 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, 2011 and 2010, the notional amount of these investments was ¥280 billion, or $2.5 billion, and ¥357 billion, or $3.2 billion, respectively, based upon the foreign currency exchange rates applicable at the time these investments were acquired. The weighted average yields generated by these investments were 3.0%, 2.8% and 2.9% for the years ended December 31, 2011, 2010 and 2009, respectively.

Below is the fair value of these instruments as reflected on our balance sheet for the periods indicated.

	December 31,	
	2011	2010
	(in millions)	
Cross-currency coupon swap agreements	$ (105)	$ (132)
Foreign exchange component of interest on dual currency investments	(128)	(114)
Total	$ (233)	$ (246)

The table below presents as of December 31, 2011, the yen-denominated earnings subject to our dual currency and synthetic dual currency investments and the related weighted average exchange rates applicable at the time these investments were acquired.

Year	Interest component of dual currency investments(1)	Cross-currency coupon swap element of synthetic dual currency investments	Total yen-denominated earnings subject to these investments	Weighted average forward exchange rate per U.S. Dollar
		(in billions)		(yen per $)
2012	3.5	2.9	6.4	82.3
2013	3.3	2.4	5.7	79.6
2014	3.2	2.4	5.6	79.6
2015-2034	27.6	48.1	75.7	78.4
Total	¥37.6	¥55.8	¥93.4	78.8

(1) Yen amounts are imputed from the contractual U.S. dollar-denominated interest cash flows.

The present value of the earnings reflected in the table above, on a U.S. dollar-denominated basis, is $1.0 billion as of December 31, 2011.

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

Our international insurance operations primarily offer products denominated in local currency. However, our Japanese insurance 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, and other related non-yen denominated net assets, including accrued investment income, to support these products. These assets and liabilities are impacted by foreign currency exchange rate movements, as they are non-yen denominated items on the books of yen-based entities. 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 U.S. GAAP earnings. For example, available-for-sale investments under U.S. GAAP are carried at fair value with changes in fair value (except as described below for impairments), including those from changes in foreign currency exchange rate movements, recorded as unrealized gains or losses in Accumulated other comprehensive income (loss), whereas the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, and the related change in value is 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, the change in value due to changes in foreign currency exchange rate movements, or remeasurement, of these non-yen denominated assets and related liabilities associated with these products is excluded from adjusted operating income and included in Realized investment gains (losses), net, and related adjustments. For the years ended December 31, 2011 and 2010, Realized investment gains (losses), net, and related adjustments includes net gains of $784 million and $85 million, respectively, reflecting the remeasurement of these non-yen denominated insurance liabilities, which are presented in the table below, and the remeasurement of certain non-yen denominated related assets, and were primarily driven by the strengthening of the yen against the U.S. and Australian dollar.

The table below presents the carrying value of insurance liabilities related to products offered in non-local currencies within our Japanese insurance operations as of the periods indicated.

	December 31,	
	2011	2010
	(in billions)	
U.S. dollar-denominated products(1)	$ 23.3	$ 9.7
Australian dollar-denominated products(2)	5.7	2.0
Euro-denominated products	0.2	0.1
Total	$ 29.2	$ 11.8

(1) As of December 31, 2011, includes $11.3 billion of insurance liabilities for U.S. dollar-denominated products issued by Star and Edison, which are supported by U.S. dollar-denominated assets.

(2) As of December 31, 2011, includes $2.7 billion of insurance liabilities for Australian dollar-denominated products issued by Star and Edison, which are supported by Australian dollar-denominated assets.

As of December 31, 2011 and 2010, $4.5 billion and $3.5 billion, respectively, of insurance liabilities for U.S. dollar-denominated products presented in the table above are associated with Prudential of Japan and coinsured to our U.S. domiciled insurance operations. These U.S. dollar-denominated liabilities are supported by U.S. dollar-denominated assets and are not subject to the remeasurement mismatch described above.

Impact of foreign currency exchange rate movements on equity

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

	December 31,	
	2011	2010
	(in billions)	
Available-for-sale U.S. dollar-denominated investments, at amortized cost	$ 6.5	$ 5.6
Held-to-maturity U.S. dollar-denominated investments, at amortized cost	0.3	0.5
Other(1)	0.1	0.1

U.S. dollar-denominated assets held in yen-based entities(2)	6.9	6.2
Yen-denominated liabilities held in U.S.-based entities(3)	0.8	0.8
Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity	$ 7.7	$ 7.0
Total U.S. GAAP equity of Japanese insurance subsidiaries, as adjusted(4)	$ 10.7	$ 5.7

(1) Primarily reflects accrued investment income on U.S. dollar-denominated investments.
(2) Excludes $24.5 billion and $10.2 billion as of December 31, 2011 and 2010, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.
(3) The yen-denominated liabilities are reported in Corporate and Other operations.
(4) Excludes Accumulated other comprehensive income (loss) components of equity and certain other adjustments.

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Available-for-sale investments under U.S. GAAP are carried at fair value with unrealized changes in fair value (except as described below for impairments), including those from changes in foreign currency exchange rate movements, recorded as unrealized gains or losses in Accumulated other comprehensive income (loss). Changes in the U.S. GAAP equity of our Japanese insurance operations due to foreign currency exchange rate movements are also recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation adjustment, and can serve as an offset to the unrealized changes in fair value of the available-for-sale investments. For the portion of available-for-sale investments that support our Japanese insurance operations U.S. GAAP equity, this offset creates a natural equity hedge. If U.S. dollar-denominated investments, including available-for-sale investments, supporting the hedge are in excess of our U.S. GAAP equity, then there is no offsetting impact to equity. In addition, the impact of foreign currency exchange rate movements on the U.S. GAAP equity of our Japanese insurance operations is partially offset by foreign currency exchange related changes in designated yen-denominated debt and other hedging instruments held in our U.S. domiciled entities and recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation adjustment.

The 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 within Asset management fees and other income. The remeasurement related to the change in value for foreign currency exchange rate movements for these investments is excluded from adjusted operating income.

We also incorporate the impact of foreign currency exchange rate movements on the remaining U.S. dollar-denominated net asset position of our Japanese insurance operations, which primarily relates to accrued investment income, as part of our overall application of the hedge strategy. These U.S. dollar-denominated assets and liabilities are remeasured for foreign currency exchange rate movements, as they are non-yen denominated items on the books of yen-based entities, and the related change in value is recorded within Asset management fees and other income. The remeasurement related to the change in value for foreign currency exchange rate movements for these items is excluded from adjusted operating income.

For U.S. dollar-denominated investments recorded on the books of yen-based entities, foreign currency exchange movements will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar-denominated investments will decrease. Upon the ultimate sale or maturity of the U.S. dollar-denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized investment gains (losses), net within the income statement and excluded from adjusted operating income. Similarly, changes in the foreign currency exchange rates that result in other-than-temporary impairments on these investments will be included in Realized investment gains (losses), net within the income statement and, as such, excluded from adjusted operating income. See Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities for a discussion of our policies regarding impairments. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of our U.S. dollar-denominated investments and negatively impact the equity of our yen-based entities by employing internal hedging strategies between a subsidiary of Prudential Financial and certain of our yen-based entities. See Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries International Insurance and Investments Subsidiaries for a discussion of our internal hedging strategies.

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,

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including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 85 yen per U.S. dollar and Korean won at a rate of 1180 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 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.

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

	Year ended December 31,		
	2011	2010	2009
		(in millions)	
Operating results:			
Revenues:			
Life Planner operations	$ 8,214	$ 7,266	$ 6,443
Gibraltar Life and Other operations	11,574	4,954	4,149
	19,788	12,220	10,592
Benefits and expenses:			
Life Planner operations	6,845	5,997	5,222
Gibraltar Life and Other operations	10,238	4,138	3,502
	17,083	10,135	8,724
Adjusted operating income:			
Life Planner operations	1,369	1,269	1,221
Gibraltar Life and Other operations	1,336	816	647
	2,705	2,085	1,868
Realized investment gains (losses), net, and related adjustments(1)	575	(317)	(790)
Related charges(2)	(17)	(15)	56
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	(160)	33	68
Change in experience-rated contractholder liabilities due to asset value changes(4)	160	(33)	(68)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(277)	(109)	(39)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 2,986	$ 1,644	$ 1,095

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. Realized investment gains (losses), net, and related adjustments includes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged, as discussed above. See Realized Investment Gains and Losses and General Account Investments 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 element of Dividends to policyholders that is based on a portion of certain realized investment gains required to be paid to policyholders and the impact of Realized investment gains (losses), net, on the amortization of deferred policy acquisition 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) 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.

On April 6, 2011, the Company entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of the Company s subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. As a result, we have reflected the results of the Global Commodities Business as discontinued operations for all periods presented. This sale was completed on July 1, 2011.

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

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was $4,709 million, comprised of $4,213 million in cash and $496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan.

The addition of these operations increases our scale in the Japanese insurance market and provides complementary distribution opportunities. We also expect these businesses to provide attractive returns primarily driven from in force business and cost synergies. Star and Edison s bank channel distribution will be transferred and integrated with the bank channel operations of Prudential Gibraltar. The Star and Edison companies were merged into Gibraltar Life on January 1, 2012. We expect pre-tax integration costs of approximately $500 million to be incurred over a five-year period. We incurred $174 million of integration costs during 2011 and expect to incur approximately $200 million during 2012. After the integration is completed, we expect annual cost savings of approximately $250 million, and expect to achieve approximately two-thirds of the annual savings by the end of 2012. Actual integration costs may exceed, and actual costs savings may fall short of, such expectations.

The Gibraltar Life operations, including the Star and Edison Businesses, use a November 30 fiscal year end for purposes of inclusion in the Company s Consolidated Financial Statements. Therefore, operating results presented in the table above includes results for Gibraltar Life for the twelve months ended November 30, 2011, 2010 and 2009, and include earnings for the Star and Edison Businesses from the February 1, 2011 acquisition date through November 30, 2011.

Acquisition of Yamato Life

On May 1, 2009, our Gibraltar Life operations acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008. Gibraltar Life served as the reorganization sponsor for Yamato and under the reorganization agreement acquired Yamato by contributing $72 million of capital to Yamato. Concurrent with our acquisition, substantially all of Yamato s insurance liabilities were restructured under a plan of reorganization to include special surrender penalties on existing policies. These surrender charges were 20% in the first year and decline by 2% each year thereafter. Subsequent to the acquisition, we renamed the acquired company The Prudential Gibraltar Financial Life Insurance Company, Ltd., or Prudential Gibraltar.

Adjusted Operating Income

2011 to 2010 Annual Comparison. Adjusted operating income from Life Planner operations increased $100 million, from $1,269 million in 2010 to $1,369 million in 2011, including a net favorable impact of $6 million from currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income increased $94 million primarily reflecting the growth of business in force driven by sales and continued strong persistency in our Japanese Life Planner operations 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 and tsunami in Japan, and less favorable mortality experience in Japan and Korea.

Adjusted operating income from our Gibraltar Life and Other operations increased $520 million, from $816 million in 2010 to $1,336 million in 2011, including a favorable impact of $29 million from currency fluctuations. Results for 2011 benefited from $354 million of earnings from the acquired Star and Edison Businesses, excluding the impact of estimated claims associated with the earthquake and tsunami 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. Also contributing to the increase in adjusted income was a $96 million gain on sale of our investment in an operating joint venture, Afore XXI, a private pension fund manager in Mexico. 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 and tsunami in Japan.

Excluding the effect of the items discussed above, adjusted operating income from our Gibraltar Life and Other operations increased $132 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. The lower amortization of deferred policy acquisition costs associated with our fixed annuity products was primarily driven by lower amortization rates reflecting an increase in prior period investment results included in total gross profits used as a basis for determining amortization rates. 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 and our asset management-related joint venture in China.

2010 to 2009 Annual Comparison. Adjusted operating income from our Life Planner operations increased $48 million, from $1,221 million in 2009 to $1,269 million in 2010, including a net favorable impact of $11 million from currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income increased $37 million primarily reflecting the growth of business in force and continued strong persistency in our Japanese Life Planner operation, partially offset by an unfavorable variance of $27 million, reflecting the impact of a $6 million net charge in 2010 and a $21 million net benefit in 2009 from reserve refinements related to the implementation of a new policy valuation system. Also impacting adjusted operating income is a $6 million lower benefit in 2010 from a reduction in amortization of deferred policy acquisition costs primarily reflecting improved mortality assumptions, which benefited both periods, associated with our annual review of estimated gross profits used to amortize deferred policy acquisition costs.

Adjusted operating income from our Gibraltar Life and Other operations increased $169 million, from $647 million in 2009 to $816 million in 2010, including a favorable impact of $22 million from currency fluctuations. In December 2010, a consortium of investors including Prudential that holds a minority interest in China Pacific Insurance (Group) Co., Ltd sold approximately 16% of its holdings, which contributed a pre-tax benefit of $66 million to results. Absent the effect of this item and the impact of currency fluctuations, adjusted operating income increased $81 million, primarily reflecting the continued growth in our fixed annuity products, which are primarily denominated in U.S. dollars, and growth in protection products driven by expanding bank channel distribution, as well as a higher contribution from non-coupon investments. Results for 2010 also include $11 million of expenses associated with the acquisition of the Star and Edison Businesses which were more than offset by a lower level of benefits and expenses including the absence of net charges of $5 million related to a 2009 guaranty fund assessment and net charges of $8 million in 2009 from unfavorable reserve refinements related to the implementation of a new policy valuation system.

Revenues

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $7,568 million, from $12,220 million in 2010 to $19,788 million in 2011, including a net favorable impact of $1,024 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $6,544 million, from $12,633 million in 2010 to $19,177 million in 2011.

Revenues from our Life Planner operations increased $948 million, from $7,266 million in 2010 to $8,214 million in 2011, including a net favorable impact of $401 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $547 million, from $7,436 million in 2010 to $7,983 million in 2011. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $393 million, from $6,080 million in 2010 to $6,473 million in 2011. Premiums and policy charges and fee

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income from our Japanese Life Planner operation increased $337 million, from $4,635 million in 2010 to $4,972 million in 2011, primarily reflecting growth of business in force and continued strong persistency. Net investment income increased $118 million, from $1,268 million in 2010 to $1,386 million in 2011, primarily due to investment portfolio growth, partially offset by lower yields in our investment portfolio compared to the prior year.

Revenues from our Gibraltar Life and Other operations increased $6,620 million, from $4,954 million in 2010 to $11,574 million in 2011, including a favorable impact of $623 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $5,997 million, from $5,197 million in 2010 to $11,194 million in 2011. This increase reflects a $4,714 million increase in premiums and policy charges and fee income, from $3,652 million in 2010 to $8,366 million in 2011, 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 in protection products within the bank distribution channel including $1,062 million higher sales of single premium whole life. Also contributing to the increase in revenues is favorable investment income primarily reflecting $816 million of income on the acquired assets from Star and Edison and continued growth of our fixed annuity products, as well as higher other income reflecting the impact of the partial sales of our indirect investment in China Pacific Group and the sale of the investment in Afore XXI, discussed above.

In some of the markets in which we operate, it is difficult to find appropriate long-duration assets to match the characteristics of our long-duration product liabilities. In Japan, we have historically sought to increase the duration of our Japanese yen investment portfolio by employing various strategies, including investing in longer-term securities or by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities and have resulted in higher portfolio yields. Based on an evaluation of market conditions, beginning in the fourth quarter of 2008 and continuing into the first quarter of 2009, we terminated or offset many of these interest rate swaps in consideration of, among other things, the interest rate environment. The resulting realized investment gains from terminating or offsetting these interest rate swaps will be recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives. For 2011, 2010 and 2009, we recognized gains of $55 million, $38 million, and $30 million, respectively, in adjusted operating income related to these realized investment gains (losses). As of December 31, 2011, $657 million of deferred gains remain to be recognized in adjusted operating income over a weighted average period of 29 years. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and may implement these hedging strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields will depend on the interest rate environment at that time.

2010 to 2009 Annual Comparison. Revenues increased $1,628 million, from $10,592 million in 2009 to $12,220 million in 2010, including a net favorable impact of $491 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $1,137 million, from $11,496 million in 2009 to $12,633 million in 2010.

Revenues from our Life Planner operations increased $823 million, from $6,443 million in 2009 to $7,266 million in 2010, including a net favorable impact of $296 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $527 million, from $6,909 million in 2009 to $7,436 million in 2010. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $363 million, from $5,717 million in 2009 to $6,080 million in 2010. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $274 million, from $4,361 million in 2009 to $4,635 million in 2010, primarily reflecting growth of business in force and continued strong persistency, partially offset by a benefit recognized in the prior year from the migration to a new policy valuation system discussed above. Net investment income increased $132 million, from $1,136 million in 2009 to $1,268 million in 2010, primarily due to investment portfolio growth, partially offset by lower yields in our Japanese investment portfolio compared to the prior year.

Revenues from our Gibraltar Life and Other operations increased $805 million, from $4,149 million in 2009 to $4,954 million in 2010, including a favorable impact of $195 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $610 million, from $4,587 million in

2009 to $5,197 million in 2010. This increase reflects a $417 million increase in premiums, from $3,150 million in 2009 to $3,567 million in 2010, as premiums benefited from $50 million of renewal premiums from the acquisition of Yamato, higher first year premiums of $229 million due to stronger sales of protection products primarily through our bank distribution channels, as well as $173 million in higher sales of single premium whole life products. Partially offsetting these favorable variances in premiums was a decrease of $101 million, reflecting the completion of the special dividend arrangement in the second quarter of 2010 established as part of Gibraltar Life s reorganization in 2001. Substantially all of the premiums recognized as additional face amounts of insurance issued pursuant to the special dividend arrangement were offset by a corresponding charge to increase reserves for the affected policies. Also contributing to the increase in revenues is favorable investment income reflecting the continued growth of our fixed annuity products and higher other income primarily reflecting the pre-tax benefit of $66 million related to the partial sale of our indirect investment in China Pacific Group discussed above.

Benefits and Expenses

2011 to 2010 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $6,948 million, from $10,135 million in 2010 to $17,083 million in 2011, including a net unfavorable impact of $989 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $5,959 million, from $10,326 million in 2010 to $16,285 million in 2011.

Benefits and expenses of our Life Planner operations increased $848 million, from $5,997 million in 2010 to $6,845 million in 2011, including a net unfavorable impact of $395 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $453 million, from $6,076 million in 2010 to $6,529 million in 2011. Benefits and expenses of our Japanese Life Planner operation increased $373 million, from $4,438 million in 2010 to $4,811 million in 2011, primarily reflecting an increase in policyholder benefits due to changes in reserves driven by the growth in business in force and, to a lesser extent, reflecting the impact of the charges associated with claims resulting from the Japanese earthquake and tsunami and less favorable mortality experience.

Benefits and expenses of our Gibraltar Life and Other operations increased $6,100 million, from $4,138 million in 2010 to $10,238 million in 2011, including an unfavorable impact of $594 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $5,506 million, from $4,250 million in 2010 to $9,756 million in 2011. Policyholder benefits, including changes in reserves, increased $3,697 million and was primarily driven by the acquisition of the Star and Edison Businesses, higher single premium whole life sales in 2011 and $37 million of charges associated with claims resulting from the March 2011 earthquake and tsunami in Japan. General and administrative expenses, net of capitalization, increased $1,225 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 and tsunami discussed above. 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.

2010 to 2009 Annual Comparison. Benefits and expenses increased $1,411 million, from $8,724 million in 2009 to $10,135 million in 2010, including a net unfavorable impact of $458 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $953 million, from $9,373 million in 2009 to $10,326 million in 2010.

Benefits and expenses of our Life Planner operations increased $775 million, from $5,222 million in 2009 to $5,997 million in 2010, including a net unfavorable impact of $285 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $490 million, from $5,586 million in 2009 to $6,076 million in 2010. Benefits and expenses of our Japanese Life Planner operation increased $356 million, from $4,082 million in 2009 to $4,438 million in 2010, primarily reflecting an increase in policyholder benefits due to changes in reserves, which was driven by the growth in business in force. Included in 2010 general and administrative expenses for the Life

Planner operations is $4 million of expenses, a decrease of $8 million from the prior year, related to a recently completed initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Benefits and expenses of our Gibraltar Life and Other operations increased $636 million, from $3,502 million in 2009 to $4,138 million in 2010, including an unfavorable impact of $173 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $463 million, from $3,787 million in 2009 to $4,250 million in 2010. This increase reflects an increase in policyholder benefits, including changes in reserves, of $371 million reflecting higher single premium whole life sales in 2010 and the acquisition of Yamato, offset by the effects of the special dividend arrangement discussed above. Also contributing to the increase in benefits and expenses is higher amortization of deferred policy acquisition costs related to growth of our protection products and the increase in single premium whole life sales, as well as higher general and administrative expenses including $11 million of expenses associated with the acquisition of the Star and Edison Businesses. Included in general and administrative expenses for Gibraltar Life is $18 million of expenses, unchanged from the prior year, related to the recently completed information processes and technology systems initiative discussed above.

Sales Results

In managing our international insurance business, we analyze revenues, as well as 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 segment, 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. 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,		
	2011	2010	2009
		(in millions)	
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$ 1,150	$ 964	$ 833
Gibraltar Life(1)	2,042	874	568
Total	$ 3,192	$ 1,838	$ 1,401
On a constant exchange rate basis:			
Life Planner operations	$ 1,097	$ 973	$ 883
Gibraltar Life(1)	1,943	897	612
Total	$ 3,040	$ 1,870	$ 1,495

(1) The year ended December 31, 2011 includes ten months of annualized new business premiums for the Star and Edison Businesses, acquired February 1, 2011.

With a diversified product mix supporting the growing demand for retirement and savings products, our international insurance operations offer various traditional whole life, term, endowment policies (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. 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.

Our Life Planners primary objective is to sell protection-oriented life insurance products on a needs basis to mass affluent and affluent customers, as well as to small businesses, whereas Gibraltar s Life Advisors have primarily sold individual protection products to the broad middle income market in Japan, particularly through relationships with affinity groups. Supplementing our core Life Planner and Life Advisor distribution channels, bank distribution channel sales primarily consist of products intended to provide premature death protection and retirement income, as well as fixed annuity products primarily denominated in U.S. dollars, and increasingly,

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Australian dollars. The addition of the Star and Edison Businesses, with historical product offerings primarily comprised of individual life insurance, fixed annuities and certain health products with fixed benefits, significantly increases our scale in the Japanese insurance marketplace and also provides complementary distribution capabilities through an increased captive agency force, expanded bank channel distribution, as well as the addition of an established independent agency channel.

Historically, growth in annualized new business premiums was closely correlated to growth of our Life Planner and Life Advisor 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. Our expectation is that this trend will continue.

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	$ 425	$ 174	$ 448	$ 50	$ 1,097	$ 417	$ 163	$ 360	$ 33	$ 973
Gibraltar Life:										
Life Advisors	415	194	127	192	928	266	70	66	103	505
Banks(3)	373	43	22	142	580	185	43	36	72	336
Independent Agency	172	178	17	68	435	4	48	2	2	56
Subtotal	960	415	166	402	1,943	455	161	104	177	897
Total	$ 1,385	$ 589	$ 614	$ 452	$ 3,040	$ 872	$ 324	$ 464	$ 210	$ 1,870

(1) Includes medical insurance, cancer insurance and accident & sickness riders. The years ended December 31, 2011 and 2010 include $305 million and $211 million, respectively, of annualized new business premiums from cancer 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 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.

2011 to 2010 Annual Comparison. On a constant exchange rate basis, annualized new business premiums increased $1,170 million, from $1,870 million in 2010 to $3,040 million in 2011.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $124 million, from $973 million in 2010 to $1,097 million in 2011, including $78 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 average premium per policy resulting from increased sales of retirement income products and variable annuity products. In Brazil, sales increased $13 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 $1,046 million, from $897 million in 2010 to $1,943 million in 2011, with Star and Edison contributing $728 million to this increase. Annualized new business premiums for Star include approximately $120 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 $220 million, primarily due to increased sales of protection products including $129 million

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from single premium 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. Historically, a significant amount of sales through our bank channel distribution was derived through a single Japanese mega-bank; however, certain of our other bank channel relationships are also contributing to the more recent sales growth. Excluding Star and Edison, independent agency distribution sales increased $81 million with the vast majority from sales of cancer insurance products and Life Advisor sales increased $17 million, primarily reflecting higher sales of retirement income and annuity products.

The number of Life Planners increased by 227 from 6,565 as of December 31, 2010 to 6,792 as of December 31, 2011, 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 the past twelve months, 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. Prior to December 31, 2010, an additional 396 Japanese Life Planners were transferred to Gibraltar Life.

The number of Life Advisors increased by 6,510 from 6,281 as of December 31, 2010 to 12,791 as of December 31, 2011, primarily driven by the Star and Edison acquisition. As of December 31, 2011, 6,550 Life Advisors were associated with the acquired businesses of Star and Edison, reflecting a decrease of 719 from the 7,269 Life Advisors as of the February 1, 2011 date of acquisition as recruitments were more than offset by terminations and resignations.

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, 2010					Year Ended December 31, 2009				
	Life	Accident & Health(1)	Retirement (2)	Annuity	Total	Life	Accident & Health(1)	Retirement (2)	Annuity	Total
					(in millions)					
Life Planners	$ 417	$ 163	$ 360	$ 33	$ 973	$ 402	$ 136	$ 310	$ 35	$ 883
Gibraltar Life:										
Life Advisors	266	70	66	103	505	251	68	56	100	475
Banks(3)	185	43	36	72	336	53	0	33	51	137
Independent Agency	4	48	2	2	56	0	0	0	0	0
Subtotal	455	161	104	177	897	304	68	89	151	612
Total	$ 872	$ 324	$ 464	$ 210	$ 1,870	$ 706	$ 204	$ 399	$ 186	$ 1,495

(1) Includes medical insurance, cancer insurance and accident & sickness riders. The years ended December 31, 2010 and 2009 includes $211 million and $89 million, respectively, of annualized new business premiums from cancer 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 1% and 64%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2010, and 1% and 48%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2009.

2010 to 2009 Annual Comparison. On a constant exchange rate basis, annualized new business premiums increased $375 million, from $1,495 million in 2009 to $1,870 million in 2010.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $90 million, primarily due to higher sales of retirement income and cancer whole life products in Japan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $285 million, primarily due to higher sales of protection products in our bank distribution channels and sales related to a recently introduced cancer whole life product, a portion of which were sold through the independent agency channel.

The number of Life Planners decreased by 44, or 1%, from 6,609 as of December 31, 2009 to 6,565 as of December 31, 2010, driven by decreases of 76 in Taiwan, 53 in Poland and 31 in Argentina, partially offset by increases of 43 in Italy, 36 in Brazil and 28 in Japan. Over the past twelve months, we transferred 92 Japanese Life Planners to Gibraltar, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Japanese Life Planners would have increased 4%, from December 31, 2009 to December 31, 2010. Prior to December 31, 2009, an additional 304 Japanese Life Planners were transferred to Gibraltar.

The number of Life Advisors decreased by 117, from 6,398 as of December 31, 2009 to 6,281 as of December 31, 2010, as new hires and 22 Life Planners transferred to Gibraltar as Life Advisors over the last twelve months were offset by resignations and terminations due in part to failure to meet minimum sales production standards. The remaining Life Planners transferred to Gibraltar, as discussed above, are not considered Life Advisors.

Investment Margins and Other Profitability Factors

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at mandated guaranteed interest rates. Authorities in some jurisdictions regulate interest rates guaranteed in our insurance contracts. The regulated guaranteed interest rates do not necessarily match the actual returns on our underlying investments that support these products. The spread between the actual investment returns and these guaranteed rates of return to the policyholder is an element of the profit or loss that we will experience on these products. With regulatory approval, guaranteed rates may be changed on new business which enhances our ability to set rates commensurate with available investment returns. However, the major sources of profitability for many of our products, particularly those sold by Prudential of Japan, are margins on mortality, morbidity and expense charges rather than investment spreads.

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the years ended December 31, 2011, 2010 and 2009 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments.

	Year ended December 31,		
	2011	**2010**	**2009**
		(in millions)	
Operating results:			
Net investment income, net of interest expense, excluding capital debt interest expense	$ (24)	$ (63)	$ (54)
Capital debt interest expense	(621)	(554)	(495)
Pension income and employee benefits	173	204	211
Other corporate activities(1)	(655)	(510)	(441)
Adjusted operating income	(1,127)	(923)	(779)
Realized investment gains (losses), net, and related adjustments(2)	(1,496)	98	108

Related charges(3)	25	2	6
Divested businesses(4)	54	(25)	2,086
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(13)	(18)	(2,311)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (2,557)	$ (866)	$ (890)

(1) Includes consolidating adjustments.
(2) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(3) Benefits and expenses exclude related charges which represent consolidating adjustments.
(4) See Divested Businesses.

(5) 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 income taxes and equity in 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.

2011 to 2010 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $204 million, from $923 million in 2010 to $1,127 million in 2011. Corporate and Other operations recorded a $93 million increase in expenses for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders. See Note 23 to the Notes to Consolidated Financial Statements for further details regarding this matter. Corporate and Other operations also recorded a $20 million charge related to a voluntary contribution 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 $39 million due to higher income in our corporate investment portfolio including higher income on equity method investments. Higher levels of short-term liquidity have been maintained throughout 2010 and into 2011 to provide additional flexibility to address our cash needs in view of changing financial market conditions. On February 1, 2011, we used a portion of cash and short-term investments in Corporate and Other operations to partially fund the purchase price related to our recent acquisition of the Star and Edison Businesses. Also, in June 2011, Prudential Financial s Board of Directors authorized the Company to repurchase, at management s discretion, up to $1.5 billion of its outstanding Common Stock through June 2012. During 2011, the Company made share repurchases of $999.5 million. See Liquidity and Capital Resources for additional details.

Results from Corporate and Other operations pension income and employee benefits decreased $31 million primarily due to a decrease in income from our qualified pension plan. Income from our qualified pension plan decreased $31 million, from $321 million in 2010 to $290 million in 2011, due to a decrease in the expected rate of return on plan assets from 7.50% in 2010 to 7.00% in 2011, partially offset by the effect on expected return due to the growth in plan assets.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2012, we will decrease the discount rate to 4.85% from 5.60% in 2011. The expected rate of return on plan assets will decrease to 6.75% in 2012 from 7.00% in 2011, 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 2012, but at a level of about $55 million to $65 million lower than in 2011. Other postretirement benefit expenses will increase in a range of $15 million to $25 million. The increase is driven primarily by demographic updates, a decrease in the discount rate to 4.60% from 5.35% and the effect of a decrease in plan assets. In 2012, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments.

2010 to 2009 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $144 million, from $779 million in 2009 to $923 million in 2010. Capital debt interest expense increased $59 million due to a greater level of capital debt, which includes the issuance in

September 2009 of $500 million of exchangeable surplus notes, and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes beginning in the second quarter of 2009, as well as the deployment of additional corporate borrowings for capital purposes. Investment income, net of interest expense, excluding capital debt interest expense, decreased $9 million. Net investment income, net of interest expense, excluding capital debt interest expense was also impacted by our repurchase of substantially all of our convertible senior notes during 2009. Also contributing to the greater loss from corporate operations in 2010 compared to the prior year are greater net charges from other corporate activities, primarily reflecting less favorable results from corporate hedging activities, increased corporate advertising expenses and other retained corporate expenses.

Results from Corporate and Other operations pension income and employee benefits decreased $7 million. The decrease reflects increases in employee benefits costs partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $13 million, from $308 million in 2009 to $321 million in 2010.

Capital Protection Framework

Corporate and Other operations includes the results of our Capital Protection Framework, which includes, among other things, 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 Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries. This hedge program resulted in charges for amortization of derivative costs of $21 million and $8 million for the years ended December 31, 2011 and 2010, respectively. The market value changes of these derivatives included in Realized investment gains (losses), net and related adjustments was a gain of $9 million and a loss of $7 million for the years ended December 31, 2011 and 2010, respectively.

In addition, we manage certain 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. We evaluate hedge levels versus our hedge target based on the overall capital considerations of the Company and prevailing capital market conditions. The GAAP/capital markets valuation framework underlying our hedge target assumes that current interest rate levels remain for the full projection period with no reversion to longer term averages. Due to the recent low interest rate environment, we decided to temporarily hedge to an amount that differs from our hedge target definition to be consistent with our long-term economic view. Because this decision was based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our hedge target definition is reported within Corporate and Other operations. For the years ended December 31, 2011 and 2010, Realized investment gains (losses), net, and related adjustments includes a loss of $1,662 million and a gain of $306 million, respectively, resulting from our decision to temporarily hedge to a different target and the change in interest rates during the years. Through our Capital Protection Framework, we have access to on-balance sheet capital and contingent sources of capital that is available to meet capital needs arising from our decision to temporarily hedge to an amount that differs from our hedge target definition, including funding of the after-tax realized investment losses incurred in 2011. For more information on the Company s Capital Protection Framework, see Liquidity and Capital Resources.

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

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 Overview 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, 2011, the excess of actual cumulative earnings over the expected cumulative earnings was $762 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 $3,846 million at December 31, 2011, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss).

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,		
	2011	2010	2009
		(in millions)	
U.S. GAAP results:			
Revenues	$ 7,015	$ 7,086	$ 5,245
Benefits and expenses	6,818	6,361	5,725
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 197	$ 725	$ (480)

Income (Loss) from Continuing Operations Before Income Taxes and Equity in Earnings of Operating Joint Ventures

2011 to 2010 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $528 million from $725 million in 2010 to $197 million in 2011. Results for 2011 include a $636 million policyholder dividend obligation expense as actual cumulative earnings were higher than expected cumulative earnings. This expense was $510 million higher than the policyholder dividend obligation expense of $126 million in 2010. As noted above, as of December 31, 2011, the excess of actual cumulative earnings over the expected cumulative earnings was $762 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 earnings policyholder dividend obligation. Results also included 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. See Note 23 to the Notes to Consolidated Financial Statements for further details regarding this matter. Partially offsetting these items, was an increase of $51 million in net realized investment gains, from $794 million in 2010 to $845 million in 2011, 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. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

2010 to 2009 Annual Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures increased $1,205 million, from a loss of $480 million in 2009 to income of $725 million in 2010. Results for 2010 include an increase of $2,079 million in net realized investment gains (losses), from losses of $1,285 million in 2009 to gains of $794 million in 2010, primarily due to lower impairments and credit losses, as well as a net increase in the market value of derivatives used in duration management programs. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, increased $67 million, primarily due to an increase in income on joint ventures and limited partnership investments accounted for under the equity method, partially offset by lower portfolio yields. In addition, dividends paid and accrued to policyholders decreased primarily due to a decrease in the 2010 dividend scale. The impact of these items contributed to the actual cumulative earnings which, when compared to the expected cumulative earnings, resulted in an increase in the cumulative earnings policyholder dividend obligation expense of $977 million, from 2009 compared to 2010. As of December 31, 2010, the excess of actual cumulative earnings over the expected cumulative earnings was $126 million.

Revenues

2011 to 2010 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $71 million, from $7,086 million in 2010 to $7,015 million in 2011, principally driven by a $89 million decrease in premiums, with a related decrease in changes in reserves, primarily due to the expected in force decline as policies terminate and the $33 million decrease in net investment income primarily due to lower portfolio yields. Partially offsetting these items was an increase of $51 million in net realized investment gains, as discussed above.

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $1,841 million, from $5,245 million in 2009 to $7,086 million in 2010, principally driven by the $2,079 million increase in net realized investment gains (losses) and an increase of $69 million in net investment income, as discussed above. Partially offsetting these items was a decline in premiums, with a related decrease in changes in reserves, primarily due to a lower amount of dividends available for policyholders to purchase additional insurance, as a result of the 2010 dividend scale reduction, and to a lesser extent, the expected in force decline as policies terminate.

Benefits and Expenses

2011 to 2010 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $457 million, from $6,361 million in 2010 to $6,818 million in 2011. This increase included a $500 million increase in dividends to policyholders reflecting an increase in the policyholder dividend obligation expense of $510 million, from $126 million in 2010 to $636 million in 2011, partially offset by a decrease in dividends paid and accrued to policyholders of $10 million, primarily due to a decline in policies in force. Partially offsetting this increase was a decrease in policyholders benefits, including changes in reserves of $30 million primarily due to the impact of the decline in premiums, 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. Also, amortization of deferred policy acquisition costs decreased $13 million reflecting the impact of lower investment gains in the calculation of actual gross profits for the period compared to the prior period.

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $636 million, from $5,725 million in 2009 to $6,361 million in 2010. This increase included an $849 million increase in dividends to policyholders reflecting an increase in the cumulative earnings policyholder dividend obligation expense of $977 million, representing an $851 million reduction in the cumulative earnings policyholder dividend obligation in 2009, compared to a $126 million increase in the cumulative earnings policyholder dividend obligation in 2010. This increase was partially offset by a decrease in

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dividends paid and accrued to policyholders of $128 million, primarily due to a decrease in the 2010 dividend scale. Policyholders benefits, including changes in reserves, decreased $250 million driven by a decline in premiums, as discussed above.

Income Taxes

Shown below is our income tax provision for the years ended December 31, 2011, 2010 and 2009, 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,		
	2011	2010	2009
		(in millions)	
Tax provision	$ 1,599	$ 1,303	$ (62)
Impact of:			
Reversal of acquisition opening balance sheet deferred tax items	(252)	(6)	(6)
Non-taxable investment income	247	214	177
Uncertain tax positions and interest	57	(9)	286
Low income housing and other tax credits	45	58	68
Foreign taxes at other than U.S. rate	34	51	15
Change in tax rate	(29)	(69)	0
Non-deductible expenses	(17)	(10)	3
Change in valuation allowance	(8)	(29)	0
Other	115	34	52
Tax provision excluding these items	$ 1,791	$ 1,537	$ 533
Tax provision at statutory rate	$ 1,791	$ 1,537	$ 533

Our income tax provision amounted to an income tax expense of $1,599 million in 2011 compared to $1,303 million in 2010. The increase in income tax expense reflects the increase in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures for the year ended December 31, 2011. In addition, our 2011 income tax expense includes an additional U.S. tax expense of $246 million related to the realization of a portion of the local deferred tax assets existing on the opening balance sheet for the Star and Edison Businesses. The local utilization of the deferred tax asset coupled with the repatriation assumption for the applicable earnings of our Japanese entities, creates the effect of a double tax for U.S. GAAP purposes. In addition, 2011 income tax expense includes a charge for the remeasurement of the deferred tax liabilities in the amount of $28 million related to a tax rate increase in Korea. These increases in annual tax expense were partially offset by a 2011 tax benefit of $42 million for the reversal of the valuation allowance against deferred tax assets for loss carryforwards of a Japanese insurance subsidiary and a $70 million tax benefit for the release of a liability for unrecognized tax benefits related to the conclusion of the federal tax audit for tax years 2004 through 2006. Furthermore, income tax expense for 2010 included a charge for the reduction of deferred tax assets in the amount of $94 million related to the Medicare Part D subsidy. In 2010, the Company recognized a higher tax expense of $21 million reflecting an increased valuation allowance against the state and local deferred tax assets of certain non-insurance subsidiaries.

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.

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 $35 million, $33 million and $(19) million for the years ended December 31, 2011, 2010 and 2009, respectively.

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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 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 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,		
	2011	2010	2009
		(in millions)	
Financial Advisory	$ (7)	$ (19)	$ 2,167
Real Estate and Relocation Services Business	81	47	(30)
Property and Casualty Insurance	(8)	(33)	(21)
Individual Health Insurance	(15)	(17)	(15)
Other(1)	3	(3)	(15)
Total divested businesses excluded from adjusted operating income	$ 54	$ (25)	$ 2,086

(1) Primarily represents commercial mortgage securitization operations and Prudential Securities Capital Markets and exchange traded shares previously held by Prudential Equity Group.

Financial Advisory

In 2008, we classified our Financial Advisory business as a divested business, reflecting our intention to exit this business. This business consists of our former investment in the Wachovia Securities joint venture, in addition to expenses relating to obligations and costs we retained in connection with the businesses we contributed to the joint venture, primarily for litigation and regulatory matters. On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities, which includes Wells Fargo Advisors, to Wells Fargo. At the closing, we received $4.5 billion in cash as the purchase price of our joint venture interest and de-recognized the carrying value related to our investment in the joint venture. Results for 2009 include the associated pre-tax gain on the sale of $2.247 billion, which is reflected in Equity in earnings of operating joint ventures, net of taxes in our Consolidated Statements of Operations. Results for 2009 also include 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 our charitable foundation.

Real Estate and Relocations Services Business

On December 6, 2011, we sold our real estate brokerage franchise and relocation services business which was comprised of PRERS to Brookfield Asset Management, Inc. We retained ownership of PREFSA, a finance subsidiary of PRERS with debt and equity investments in a limited number of real estate brokerage franchises. The results of these operations, inclusive of PREFSA, are reflected as a divested business for all periods presented. The proceeds from the sale, before transaction related expenses, were $108 million and resulted in a pre-tax gain of approximately $49 million.

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 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.

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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,		
	2011	2010	2009
		(in millions)	
Retirement Segment:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$ 383	$ 468	$ 1,533
Derivatives	(160)	50	(131)
Commercial mortgages and other loans	9	6	(44)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(283)	(598)	(831)
Net gains (losses)	$ (51)	$ (74)	$ 527
International Insurance Segment:			
Investment gains (losses) on trading account assets supporting insurance liabilities, net	$ (160)	$ 33	$ 68
Change in experience-rated contractholder liabilities due to asset value changes	160	(33)	(68)
Net gains (losses)	$ 0	$ 0	$ 0
Total:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$ 223	$ 501	$ 1,601
Derivatives	(160)	50	(131)
Commercial mortgages and other loans	9	6	(44)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(123)	(631)	(899)
Net gains (losses)	$ (51)	$ (74)	$ 527

(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 $7 million, $9 million and $35 million as of December 31, 2011, 2010 and 2009, 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 $55 million, $108 million and $105 million for the years ended December 31, 2011, 2010 and 2009, 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 $51 million and $74 million and net gains of $527 million for the years ended December 31, 2011, 2010 and 2009, 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.

As shown in the table above, the International Insurance segment includes offsetting impacts, in all periods, from changes in investment gains and losses on trading account assets supporting insurance liabilities and experience-rated contractholder liabilities.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value established a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within

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which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. See Note 20 to the Consolidated Financial Statements for a description of these levels.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of December 31, 2011 and 2010, split between the Financial Services Businesses and Closed Block Business, by fair value hierarchy level. See Note 20 to the Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis presented on a consolidated basis.

	Financial Services Businesses as of December 31, 2011				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 9,524	$ 43	$	$ 9,567
Obligations of U.S. states and their political subdivisions	0	2,277	0		2,277
Foreign government bonds	0	76,401	13		76,414
Corporate securities	12	96,090	1,016		97,118
Asset-backed securities	0	4,654	1,867		6,521
Commercial mortgage-backed securities	0	8,220	145		8,365
Residential mortgage-backed securities	0	7,856	14		7,870
Subtotal	12	205,022	3,098		208,132
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	177	9		186
Obligations of U.S. states and their political subdivisions	0	284	0		284
Foreign government bonds	0	655	0		655
Corporate securities	0	10,927	109		11,036
Asset-backed securities	0	1,010	357		1,367
Commercial mortgage-backed securities	0	2,226	21		2,247
Residential mortgage-backed securities	0	1,842	2		1,844
Equity securities	769	122	20		911
Short-term investments and cash equivalents	684	267	0		951
Subtotal	1,453	17,510	518		19,481
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	31	0		31
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	2	45	0		47
Corporate securities	14	383	39		436
Asset-backed securities	0	523	59		582
Commercial mortgage-backed securities	0	96	14		110
Residential mortgage-backed securities	0	94	2		96
Equity securities	300	40	1,153		1,493
All other(3)	15	13,547	93	(11,222)	2,433
Subtotal	331	14,759	1,360	(11,222)	5,228
Equity securities, available-for-sale	1,909	2,171	333		4,413
Commercial mortgage and other loans	0	514	86		600
Other long-term investments	192	(195)	1,110		1,107
Short-term investments	5,035	3,197	0		8,232
Cash equivalents	2,595	5,797	0		8,392
Other assets	3	(25)	9		(13)
Subtotal excluding separate account assets	11,530	248,750	6,514	(11,222)	255,572
Separate account assets(4)	40,319	158,703	19,358		218,380

Total assets	$ 51,849	$ 407,453	$ 25,872	$ (11,222)	$ 473,952
Future policy benefits	$ 0	$ 0	$ 2,886	$	$ 2,886
Other liabilities	0	8,013	285	(7,854)	444
Total liabilities	$ 0	$ 8,013	$ 3,171	$ (7,854)	$ 3,330

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	Closed Block Business as of December 31, 2011				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 5,514	$ 23	$	$ 5,537
Obligations of U.S. states and their political subdivisions	0	778	0		778
Foreign government bonds	0	561	12		573
Corporate securities	0	29,321	434		29,755
Asset-backed securities	0	3,511	661		4,172
Commercial mortgage-backed securities	0	3,715	0		3,715
Residential mortgage-backed securities	0	1,984	2		1,986
Subtotal	0	45,384	1,132		46,516
Trading account assets supporting insurance liabilities	0	0	0		0
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	0	0		0
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	0	0		0
Corporate securities	0	119	0		119
Asset-backed securities	0	70	0		70
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity securities	5	0	123		128
All other(3)	0	0	0		0
Subtotal	5	189	123		317
Equity securities, available-for-sale	3,095	0	27		3,122
Commercial mortgage and other loans	0	0	0		0
Other long-term investments	1	184	0		185
Short-term investments	471	57	0		528
Cash equivalents	72	965	0		1,037
Other assets	0	111	0		111
Subtotal excluding separate account assets	3,644	46,890	1,282		51,816
Separate account assets(4)	0	0	0		0
Total assets	$ 3,644	$ 46,890	$ 1,282	$	$ 51,816
Future policy benefits	$ 0	$ 0	$ 0	$	$ 0
Other liabilities	0	0	0		0
Total liabilities	$ 0	$ 0	$ 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% and 2% for Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 3% for our Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.

(3) Primarily represents derivative assets.

(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by us with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in our Consolidated Statement of Financial Position.

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	Financial Services Businesses as of December 31, 2010(4)				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 5,264	$ 0	$	$ 5,264
Obligations of U.S. states and their political subdivisions	0	1,574	0		1,574
Foreign government bonds	0	49,549	13		49,562
Corporate securities	5	69,843	694		70,542
Asset-backed securities	0	5,713	1,348		7,061
Commercial mortgage-backed securities	0	8,128	130		8,258
Residential mortgage-backed securities	0	7,525	20		7,545
Subtotal	5	147,596	2,205		149,806
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	266	0		266
Obligations of U.S. states and their political subdivisions	0	182	0		182
Foreign government bonds	0	569	0		569
Corporate securities	0	10,036	82		10,118
Asset-backed securities	0	804	226		1,030
Commercial mortgage-backed securities	0	2,402	5		2,407
Residential mortgage-backed securities	0	1,345	18		1,363
Equity securities	935	200	4		1,139
Short-term investments and cash equivalents	606	91	0		697
Subtotal	1,541	15,895	335		17,771
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	96	0		96
Obligations of U.S. states and their political subdivisions	118	0	0		118
Foreign government bonds	1	24	0		25
Corporate securities	14	151	35		200
Asset-backed securities	0	574	50		624
Commercial mortgage-backed securities	0	84	19		103
Residential mortgage-backed securities	0	163	18		181
Equity securities	392	142	26		560
All other(3)	33	7,899	134	(5,904)	2,162
Subtotal	558	9,133	282	(5,904)	4,069
Equity securities, available-for-sale	1,038	2,788	322		4,148
Commercial mortgage and other loans	0	136	212		348
Other long-term investments	37	169	768		974
Short-term investments	2,171	1,641	0		3,812
Cash equivalents	2,332	6,359	0		8,691
Other assets	2,785	(107)	(2)		2,676
Subtotal excluding separate account assets	10,467	183,610	4,122	(5,904)	192,295
Separate account assets(4)	43,273	148,711	15,792		207,776
Total assets	$ 53,740	$ 332,321	$ 19,914	$ (5,904)	$ 400,071
Future policy benefits	$ 0	$ 0	$ (204)	$	$ (204)
Other liabilities	1	6,736	2	(5,712)	1,027
Total liabilities	$ 1	$ 6,736	$ (202)	$ (5,712)	$ 823

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	Closed Block Business as of December 31, 2010(5)				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 6,034	$ 0	$	$ 6,034
Obligations of U.S. states and their political subdivisions	0	657	0		657
Foreign government bonds	0	663	14		677
Corporate securities	0	27,182	493		27,675
Asset-backed securities	0	3,525	405		3,930
Commercial mortgage-backed securities	0	3,779	0		3,779
Residential mortgage-backed securities	0	2,422	3		2,425
Subtotal	0	44,262	915		45,177
Trading account assets supporting insurance liabilities	0	0	0		0
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	0	0		0
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	0	0		0
Corporate securities	0	118	0		118
Asset-backed securities	0	33	4		37
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity securities	1	0	0		1
All other(3)	0	0	0		0
Subtotal	1	151	4		156
Equity securities, available-for-sale	3,420	140	33		3,593
Commercial mortgage and other loans	0	0	0		0
Other long-term investments	0	(40)	0		(40)
Short-term investments	1,136	28	0		1,164
Cash equivalents	143	302	0		445
Other assets	0	107	11		118
Subtotal excluding separate account assets	4,700	44,950	963		50,613
Separate account assets(4)	0	0	0		0
Total assets	$ 4,700	$ 44,950	$ 963	$	$ 50,613
Future policy benefits	$ 0	$ 0	$ 0	$	$ 0
Other liabilities	0	0	1		1
Total liabilities	$ 0	$ 0	$ 1	$	$ 1

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5% and 2% for the Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 2% for the Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.
(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.
(3) Primarily represents derivative assets.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by us with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in our Consolidated Statement of Financial Position.
(5) Includes reclassifications to conform to current period presentation.

For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 20 to the Consolidated Financial Statements.

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. As discussed in more detail below, the determination of fair value for certain assets and liabilities 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.

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For a description of the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements. The following sections provide additional 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. Information regarding separate account assets is excluded as the risk of assets for these categories is primarily borne by our customers and policyholders.

Fixed Maturity and Equity Securities

Public fixed maturity securities are generally valued using the price provided by independent pricing services under our normal pricing protocol. Securities with prices based on validated quotes from pricing services are generally reflected within Level 2. Public fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or non-binding broker quotes. For certain private fixed maturity and equity securities, the discounted cash flow or other 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 $3.2 billion as of December 31, 2011 and $2.1 billion as of December 31, 2010 of public fixed maturities, with values primarily based on non-binding broker-quotes, and approximately $1.6 billion as of December 31, 2011 and $1.4 billion as of December 31, 2010 of private fixed maturities, with the majority of values based on internally-developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and non-binding 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 Accumulated other comprehensive income (loss), a separate component of equity. Our investments classified as held-to-maturity are carried at amortized cost.

Other Long-Term Investments

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. The 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, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 totaled approximately $0.4 billion as of both December 31, 2011 and December 31, 2010. Our direct investment in these funds is not material, and the majority of the assets recorded as a result of the consolidation of these funds are offset by a noncontrolling interest reflected as a separate component of equity. The noncontrolling interest is not considered to be fair valued and therefore is not included in fair value reporting above. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have also been included within Level 3 in our fair value hierarchy. Investments in these funds included in Level 3 totaled approximately $0.4 billion as of December 31, 2011 and $0.3 billion as of December 31, 2010.

Derivative Instruments

Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models, and are affected by changes in market factors including non-performance risk. The majority of our derivative positions are traded in the over the counter (OTC) derivative market and are classified within Level 2 in our fair value hierarchy since their significant inputs have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. Our policy is to use mid-market pricing consistent with our best estimate of fair value.

Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured products. These derivatives are valued based upon models with some significant unobservable market inputs or inputs from less actively traded markets. Derivatives classified within Level 3 are validated 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 $84 million and $3 million, respectively, as of December 31, 2011 and $126 million and $3 million, respectively, as of December 31, 2010, without giving consideration to the impact of netting.

For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Variable Annuity Optional Living Benefit Features below.

All realized and unrealized changes in fair value of 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 non-dealer related 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 and General Account Investments Realized Investment Gains and Losses. Dealer related derivative activity related to the Company s former global commodities group is reported in Income (loss) from discontinued operations, net of taxes.

Variable Annuity Optional Living Benefit Features

Our liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are 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. Because there are significant assumptions utilized in the valuation of the embedded derivatives associated with our optional living benefit features that are primarily unobservable, the liability included in future policy benefits has been reflected within Level 3 in our fair value hierarchy.

We are also required to incorporate the market-perceived risk of our own non-performance (NPR) in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the financial strength ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our NPR. To reflect the NPR, we incorporate an additional credit spread over LIBOR rates into the discount rate used in the valuations of the embedded derivative liability. The additional credit spread over LIBOR rates incorporated into the discount rate as of December 31, 2011 generally ranged from 150 to 250 basis points for the portion of the interest rate curve most relevant to these liabilities. This additional spread is applied at an individual contract level and only to those individual living benefit contracts in a liability position and not to those in a contra-liability position. We also adjust these spreads to remove any illiquidity risk premium, subject to a floor based on a percentage of the credit spread.

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As of December 31, 2011, the value of the embedded derivatives associated with the optional living benefit features of the Individual Annuities segment, before the adjustment for NPR, was a net liability of $8,341 million. This net liability was comprised of $8,555 million of individual living benefit contracts in a liability position, net of $214 million of individual living benefit contracts in a contra-liability position. As of December 31, 2011, our adjustment for NPR resulted in a $5,509 million cumulative decrease to the embedded derivative liability for the Individual Annuities segment, reflecting the additional credit spread over LIBOR rates we incorporated into the discount rate used in the valuations of those individual living benefit contracts in a liability position. This adjustment for NPR represents an increase of $4,786 million in 2011 for the Individual Annuities segment primarily resulting from a higher base of embedded derivative liabilities, driven by significant declines in risk-free interest rates and the impact of account value performance, as well as an overall widening of the spreads used in valuing NPR, which reflect the financial strength ratings of our insurance subsidiaries. Partially offsetting these items was a $506 million charge relating to a refinement to the calculation of the NPR that we implemented in the fourth quarter of 2011, which incorporates a floor to the illiquidity risk premium reduction at a percentage of the credit spread.

The change in fair value of the GMAB, GMWB and GMIWB resulted in a net liability of $2,886 million as of December 31, 2011, compared to a net contra-liability of $204 million as of December 31, 2010. The change primarily reflects a higher base of embedded derivative liabilities driven by significant declines in risk-free interest rates and the impact of account value performance, as well as an overall widening of the spreads used in valuing NPR, as noted above, which were primarily in our Individual Annuities segment as described in more detail under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Realized Investment Gains and Losses and General Account Investments

Realized Investment Gains and Losses

Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for other-than-temporary impairments. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, net changes in the allowance for losses, as well as gains and losses on sales, certain restructurings and foreclosures on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment, except those derivatives used in our capacity as a broker or dealer.

For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording fixed maturity other-than-temporary impairments, see General Account Investments Fixed Maturity Securities Other-Than-Temporary Impairments of Fixed Maturity Securities below. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording equity impairments, see General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities below. For a further discussion of our policy regarding commercial mortgage and other loans, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

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. As discussed in more detail below, certain of the other-than-temporary impairments recognized for the year ended December 31, 2011 related to foreign currency translation losses on securities that are approaching maturity, as well as adverse financial conditions of the respective issuer on asset-backed securities collateralized by sub-prime mortgages and Japanese commercial mortgage-backed securities. Other-than-temporary impairments recognized for the year ended December 31, 2010 were primarily related to asset-backed securities collateralized by sub-prime mortgages and Japanese commercial mortgage-backed securities that reflect adverse financial conditions of the respective issuers, foreign currency translation losses related to foreign denominated securities that are approaching maturity, and the intent to sell securities, primarily related to asset-backed securities collateralized by sub-prime mortgages.

We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. 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.

We require most issuers of private fixed maturity securities to pay us make-whole yield maintenance payments when they prepay the securities. Prepayments are driven by factors specific to the activities of our borrowers as well as the interest rate environment.

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 reduce 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 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, 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.

Adjusted operating income generally excludes Realized investment gains (losses), net, subject to certain exceptions (realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings and those associated with terminating hedges of foreign currency earnings and current period yield adjustments), and related charges and adjustments.

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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,		
	2011	2010	2009
		(in millions)	
Realized investment gains (losses), net:			
Financial Services Businesses	$ 1,986	$ 256	$ (1,612)
Closed Block Business	845	794	(1,285)
Consolidated realized investment gains (losses), net	$ 2,831	$ 1,050	$ (2,897)
Financial Services Businesses:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ (125)	$ (361)	$ (823)
Equity securities	(120)	11	(402)
Commercial mortgage and other loans	89	35	(517)
Derivative instruments	2,095	601	171
Other	47	(30)	(41)
Total	$ 1,986	$ 256	$ (1,612)
Related adjustments(1)	535	(140)	396
Realized investment gains (losses), net, and related adjustments	2,521	116	(1,216)
Related charges(2)	(1,836)	(178)	(492)
Realized investment gains (losses), net, and related charges and adjustments	$ 685	$ (62)	$ (1,708)
Closed Block Business:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ 355	$ 117	$ (381)
Equity securities	265	174	(473)
Commercial mortgage and other loans	33	18	(85)
Derivative instruments	199	489	(298)
Other	(7)	(4)	(48)
Total	$ 845	$ 794	$ (1,285)

(1) Related adjustments include that portion of Realized investment gains (losses), net, that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those within certain of our businesses for which such gains (losses) are a principal source of earnings. Related adjustments also include that portion of Asset management fees and other income and Net investment income that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure, realized and unrealized gains and losses on certain general account investments classified as Other trading account assets, as well as counterparty credit losses on derivative positions. See Note 22 to the Consolidated Financial Statements for additional information on these related adjustments.
(2) Reflects charges that are excluded from adjusted operating income, as described more fully in Note 22 to the Consolidated Financial Statements.

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2011 to 2010 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains in 2011 were $1,986 million, compared to net realized investment gains of $256 million in 2010.

Net realized losses on fixed maturity securities were $125 million in 2011, compared to net realized losses of $361 million in 2010, as set forth in the following table:

	Year Ended December 31, 2011	Year Ended December 31, 2010
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 527	$ 380
Private bond prepayment premiums	36	37
Total gross realized investment gains	563	417
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(431)	(564)
Gross losses on sales and maturities(1)	(250)	(173)
Credit related losses on sales	(7)	(41)
Total gross realized investment losses	(688)	(778)
Realized investment gains (losses), net Fixed Maturity Securities	$ (125)	$ (361)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 277	$ 207

(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 of $277 million in 2011 were primarily due to sales within our Retirement and Individual Annuities segments. Included in the gross gains on sales and maturities of fixed maturity securities were $35 million of gross gains related to the sale of asset-backed securities collateralized by sub-prime mortgages. Net trading gains on sales and maturities of fixed maturity securities of $207 million in 2010 were primarily due to sales within our Retirement and Individual Annuities segments. Included in the gross gains on sales and maturities of fixed maturity securities were $4 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 associated with certain living benefit features of some of our variable annuity products. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2011 and 2010.

Net realized losses on equity securities were $120 million in 2011, of which other-than-temporary impairments were $94 million and net trading losses on sales of equity securities were $26 million. Net trading losses in 2011 were primarily due to public equity sales within our International Insurance operations. Net realized gains on equity securities were $11 million in 2010, of which net trading gains on sales of equity securities were $89 million, partially offset by other-than-temporary impairments of $78 million. Net trading gains in 2010 were primarily due to private equity sales within our Corporate and Other and International Insurance operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2011 and 2010.

Net realized gains on commercial mortgage and other loans in 2011 were $89 million, primarily related to a net decrease in the loan loss reserves of $169 million, which was largely offset by $139 million of realized losses on related restructurings and sales within our Asset Management and International Insurance businesses. In addition, there were $32 million of mark-to-market gains on our interim loan portfolio. Net realized gains on commercial mortgage and other loans in 2010 were $35 million and primarily related to a net decrease in the loan loss reserves of $103 million and mark-to-market net gains on our interim loan portfolio. These net gains were partially offset by net realized losses on loan modifications, payoffs, and foreclosures 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 gains on derivatives were $2,095 million in 2011, compared to net realized gains of $601 million in 2010. The net derivative gains in 2011 include net gains of $1,375 million related to product embedded derivatives and related hedge positions primarily associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. 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 during 2011, and net gains of $214 million on foreign currency forward contracts used in our Star and Edison businesses to hedge portfolio assets primarily due to the strengthening of the Japanese yen against the U.S. dollar and Australian dollar. The net derivative gains in 2010 primarily reflect net gains of $521 million on interest rate derivatives used to manage duration as interest rates declined and net gains of $325 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to the 2010 gains are net derivative gains of $99 million on currency derivatives used to hedge foreign-denominated investments and net gains of $43 million on embedded derivatives associated with certain externally-managed investments in the European market. Partially offsetting the 2010 gains were net derivative losses of $319 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses primarily in Japan and net losses of $75 million on credit derivatives as credit spreads tightened.

Net realized gains on other investments were $47 million in 2011, which 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 joint ventures and partnerships and real estate investments. Net realized losses on other investments were $30 million in 2010, which reflected $30 million of other other-than-temporary impairments on joint ventures and partnerships and real estate 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. The adjustments are made to arrive at Realized investment gains (losses), net, and related adjustments which are excluded from adjusted operating income. Related adjustments to realized investment gains (losses) were a net positive adjustment of $535 million in 2011. Adjustments for that portion of Realized investment gains (losses), net that are included in adjusted operating income were a net negative adjustment of $240 million, driven by $154 million of gains that represent a principal source of earnings for certain of our businesses, including $64 million from the partial sale of a real estate seed investment, as well as $259 million of gains primarily from settlements on interest rate and currency swaps, partially offset by $175 million of losses related to the settlements of swaps used to hedge foreign-denominated earnings. Adjustments for that portion of Asset management fees and other income and Net investment income that are excluded from adjusted operating income were a net positive adjustment of $775 million, primarily driven by the impact of changes in foreign currency exchange rates on certain assets and liabilities for which we economically hedge the foreign currency exposure.

Related adjustments to realized investment gains (losses) were a net negative adjustment of $140 million in 2010. Adjustments for that portion of Realized investment gains (losses), net that are included in adjusted operating income were a net negative adjustment of $167 million, driven by $243 million of gains primarily from settlements on interest rate and currency swaps, partially offset by $93 million of losses related to the settlements of swaps used to hedge foreign-denominated earnings. Adjustments for that portion of Asset management fees and other income and Net investment income that are excluded from adjusted operating income were a net positive adjustment of $27 million, primarily driven by the impact of changes in foreign currency exchange rates on certain assets and liabilities for which we economically hedge the foreign currency exposure.

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Charges that relate to Realized investment gains (losses), net are also excluded from adjusted operating income. Related charges were net negative adjustments of $1,836 million and $178 million in 2011 and 2010, respectively. The $1,836 million in 2011 was primarily driven by that portion of amortization of deferred policy acquisition and other costs relating to the net gain (loss) on embedded derivatives and related hedge positions associated with certain variable annuity contracts. The $178 million in 2010 was primarily driven by payments associated with the market value adjustment features related to certain variable annuity products we sell.

During 2011, we recorded other-than-temporary impairments of $558 million in earnings, compared to other-than-temporary impairments of $672 million recorded in earnings in 2010. 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,	
	2011	2010
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 314	$ 422
Private fixed maturity securities	117	142
Total fixed maturity securities	431	564
Equity securities	94	78
Other invested assets(2)	33	30
Total	$ 558	$ 672

(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, 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

	Year Ended December 31, 2010		
	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)	$ 140	$ 185	$ 325
Due to other accounting guidelines(3)	69	170	239
Total	$ 209	$ 355	$ 564

(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 foreign currency translation losses approach maturity or where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in 2011 were concentrated in asset-backed securities collateralized by sub-prime mortgages, Japanese commercial mortgage-backed securities, and the retail and wholesale, services, and manufacturing sectors of our corporate securities. The 2011 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. Our Japanese insurance operations hold foreign currency-denominated investments which in some cases, due primarily to the strengthening of the yen, are currently in an unrealized loss position. As they 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 and therefore we record an other-than-temporary impairment. During 2011, we recorded other-than-temporary impairments of $184 million in earnings related to securities with an unrealized foreign currency translation loss that are approaching maturity. As of December 31, 2011, gross unrealized losses related to those securities maturing between January 1, 2012 and December 31, 2014 are $625 million. Based on December 31, 2011 fair values, absent a change in currency rates, impairments of approximately $191 million would be recorded in earnings in 2012 and approximately $142 million in 2013 on these securities. Fixed maturity other-than-temporary impairments in 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages, Japanese commercial mortgage-backed securities, and the services, manufacturing, and finance sectors of our corporate securities. The 2010 other-than-temporary impairments were primarily driven by asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers, the impact of the rising forward LIBOR curve and the intent to sell securities. Additionally, other-than-temporary impairments were driven by Japanese commercial mortgage-backed securities that reflect adverse financial conditions of the respective issuers, and foreign currency translation losses related to foreign denominated securities that are approaching maturity.

Equity security other-than-temporary impairments in 2011 and 2010 were primarily driven by circumstances where the decline in value was maintained for one year or greater or where we intend to sell the security and were primarily in our Japanese insurance operations.

Closed Block Business

For the Closed Block Business, net realized investment gains in 2011 were $845 million, compared to net realized investment gains of $794 million in 2010.

Net realized gains on fixed maturity securities were $355 million in 2011, compared to net realized gains of $117 million in 2010, as set forth in the following table:

	Year Ended December 31,	
	2011	2010
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 516	$ 273
Private bond prepayment premiums	21	24
Total gross realized investment gains	537	297
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(104)	(168)
Gross losses on sales and maturities(1)	(75)	(10)
Credit related losses on sales	(3)	(2)
Total gross realized investment losses	(182)	(180)

Realized investment gains (losses), net Fixed Maturity Securities	$ 355	$ 117
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 441	$ 263

(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.

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Net trading gains on sales and maturities of fixed maturity securities were $441 million in 2011 and $263 million in 2010. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2011 and 2010.

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. Net realized gains on equity securities were $174 million in 2010, which included net trading gains on sales of equity securities of $208 million, partially offset by other-than-temporary impairments of $34 million. See below for additional information regarding the other-than-temporary impairments of equity securities in 2011 and 2010.

Net realized gains on commercial mortgage and other loans in 2011 were $33 million related to a net decrease in the loan loss reserve of $42 million, partially offset by net realized losses on related foreclosures. Net realized gains on commercial mortgage and other loans in 2010 were $18 million related to a net decrease in the loan loss reserve of $22 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 $199 million in 2011 compared to net realized gains of $489 million in 2010. The net derivative gains in 2011 primarily reflect net gains of $135 million on interest rate derivatives used to manage duration as interest rates declined, and $53 million on to be announced (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. Derivative gains in 2010 primarily reflect net mark-to-market gains of $404 million on interest rate derivatives used to manage duration as interest rates declined and net derivative gains of $74 million on currency derivatives used to hedge foreign denominated investments. Also, contributing to the net derivative gains in 2010 were net realized gains of $17 million on embedded derivatives associated with certain externally-managed investments in the European market.

During 2011, we recorded other-than-temporary impairments of $127 million in earnings, compared to other-than-temporary impairments of $208 million recorded in earnings in 2010. 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,	
	2011	2010
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 90	$ 158
Private fixed maturity securities	14	10
Total fixed maturity securities	104	168
Equity securities	18	34
Other invested assets(2)	5	6
Total	$ 127	$ 208

(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.

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	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 Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 61	$ 36	$ 97
Due to other accounting guidelines(3)	6	1	7
Total	$ 67	$ 37	$ 104

	Year Ended December 31, 2010		
	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 Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 66	$ 28	$ 94
Due to other accounting guidelines(3)	67	7	74
Total	$ 133	$ 35	$ 168

(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 we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments of $104 million in 2011 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the public utilities and services sectors of our corporate securities and were primarily driven by 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. Fixed maturity other-than-temporary impairments in 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers as well as our intent to sell certain asset-backed securities collateralized by sub-prime mortgages.

Equity security other-than-temporary impairments in 2011 and 2010 were primarily due to circumstances where the decline in value was maintained for one year or greater.

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2010 to 2009 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains in 2010 were $256 million, compared to net realized investment losses of $1,612 million in 2009.

Net realized losses on fixed maturity securities were $361 million in 2010, compared to net realized losses of $823 million in 2009, as set forth in the following table:

	Year Ended December 31, 2010	2009
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 380	$ 788
Private bond prepayment premiums	37	19
Total gross realized investment gains	417	807
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(564)	(1,174)
Gross losses on sales and maturities(1)	(173)	(319)
Credit related losses on sales	(41)	(137)
Total gross realized investment losses	(778)	(1,630)
Realized investment gains (losses), net Fixed Maturity Securities	$ (361)	$ (823)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 207	$ 469

(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 of $207 million in 2010 were primarily due to sales within our Retirement and Individual Annuities segments. Net trading gains on sales and maturities of fixed maturity securities of $469 million in 2009 were primarily due to sales of government bonds in our International Insurance business and sales within our Individual Annuities segment. Sales of fixed maturity securities in our Individual Annuities segment 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 additional information regarding the other-than-temporary impairments of fixed maturity securities in 2010 and 2009.

Net realized gains on equity securities were $11 million in 2010, of which net trading gains on sales of equity securities were $89 million, partially offset by other-than-temporary impairments of $78 million. Net trading gains in 2010 were primarily due to private equity sales within our Corporate and Other business and sales within our International Insurance business. Net realized losses on equity securities were $402 million in 2009, of which other-than-temporary impairments were $389 million and net trading losses on sales of equity securities were $13 million. Net trading losses in 2009 were primarily due to sales within our International Insurance business. See below for additional information regarding the other-than-temporary impairments of equity securities in 2010 and 2009.

Net realized gains on commercial mortgage and other loans in 2010 were $35 million and primarily related to a net decrease in the loan loss reserves of $103 million and mark-to-market net gains on our interim loan portfolio of $17 million. These net gains were partially offset by net realized losses on loan modifications, payoffs, and foreclosures within our Asset Management business. Net losses on commercial mortgage and other loans in 2009 were $517 million primarily related to a net increase in the loan loss reserve of $317 million and mark-to-market losses on mortgage loans 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.

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Net realized gains on derivatives were $601 million in 2010, compared to net realized gains of $171 million in 2009. The net derivative gains in 2010 primarily reflect net gains of $521 million on interest rate derivatives used to manage duration as interest rates declined during 2010, and net gains of $325 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to these gains are net derivative gains of $99 million on currency derivatives used to hedge foreign denominated investments and net gains of $43 million on embedded derivatives associated with certain externally-managed investments in the European market. Partially offsetting these gains were net derivative losses of $319 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses primarily in Japan and net losses of $75 million on credit derivatives as credit spreads tightened. The net derivative gains in 2009 primarily reflect net gains of $376 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. Also contributing to the net derivative gains in 2009 were net gains of $196 million on embedded derivatives associated with certain externally-managed investments in the European market and net gains of $87 million on mark-to-market adjustments from credit derivatives. Partially offsetting these gains were net mark-to-market losses of $376 million on interest rate derivatives used to manage duration and net losses of $121 million on currency derivatives used to hedge foreign denominated investments.

Net realized losses on other investments were $30 million in 2010, which reflected $30 million of other other-than-temporary impairments on joint ventures and partnerships and real estate investments. Net realized losses on other investments were $41 million in 2009, which included $48 million of other-than-temporary impairments on joint ventures and partnerships and losses on investment real estate in our asset management operations.

During 2010 we recorded other-than-temporary impairments of $672 million in earnings, compared to total other-than-temporary impairments of $1,611 million recorded in earnings in 2009. 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,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 422	$ 1,022
Private fixed maturity securities	142	152
Total fixed maturity securities	564	1,174
Equity securities	78	389
Other invested assets(2)	30	48
Total	$ 672	$ 1,611

(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, 2010		
	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)	$ 140	$ 185	$ 325
Due to other accounting guidelines(3)	69	170	239
Total	$ 209	$ 355	$ 564

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	Year Ended December 31, 2009		
	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)	$ 653	$ 321	$ 974
Due to other accounting guidelines(3)	15	185	200
Total	$ 668	$ 506	$ 1,174

(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) 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 we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages, Japanese commercial mortgage-backed securities, and the services, manufacturing, and finance sectors of our corporate securities. These other-than-temporary impairments were primarily driven by asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers, the impact of the rising forward LIBOR curve and the intent to sell securities. Additionally, other-than-temporary impairments were driven by Japanese commercial mortgage-backed securities that reflect adverse financial conditions of the respective issuers, and foreign currency translation losses related to foreign denominated securities that are approaching maturity. Our Japanese insurance operations hold U.S. dollar-denominated investments which in some cases, due primarily to the strengthening of the yen, are currently in an unrealized loss position. As they 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 and therefore we record an other-than-temporary impairment. During 2010, we recorded other-than-temporary impairments of $143 million in earnings related to securities with an unrealized foreign currency translation loss that are approaching maturity. As of December 31, 2010, gross unrealized losses related to those securities maturing between January 1, 2011 and December 31, 2012 are $201 million. Based on December 31, 2010 fair values, absent a change in currency rates, impairments of approximately $169 million would be recorded in earnings in 2011. Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities, and were primarily driven by 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.

Equity security other-than-temporary impairments in 2010 and 2009 were primarily driven by circumstances where the decline in value was maintained for one year or greater or where we intend to sell the security. Equity security other-than-temporary impairments in 2010 were primarily in our Japanese insurance operations equity portfolios. Equity security other-than-temporary impairments in 2009 were primarily driven by declines in value of fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate owned life insurance and circumstances where we lack the ability or intent to retain the security to recovery.

Closed Block Business

For the Closed Block Business, net realized investment gains in 2010 were $794 million, compared to net realized investment losses of $1,285 million in 2009.

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Net realized gains on fixed maturity securities were $117 million in 2010, compared to net realized losses of $381 million in 2009, as set forth in the following table:

	Year Ended December 31, 2010	2009
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 273	$ 199
Private bond prepayment premiums	24	19
Total gross realized investment gains	297	218
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(168)	(520)
Gross losses on sales and maturities(1)	(10)	(72)
Credit related losses on sales	(2)	(7)
Total gross realized investment losses	(180)	(599)
Realized investment gains (losses), net Fixed Maturity Securities	$ 117	$ (381)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 263	$ 127

(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 $263 million in 2010. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2010 and 2009.

Net realized gains on equity securities were $174 million in 2010. Net trading gains on sales of equity securities were $208 million, partially offset by other-than-temporary impairments of $34 million. Net realized losses on equity securities were $473 million in 2009, of which other-than-temporary impairments were $613 million, partially offset by net trading gains on sales of equity securities of $140 million. Net trading gains reflect improved equity markets throughout 2010 and 2009 coupled with the current equity trading strategy which produced gains as the years progressed. See below for additional information regarding the other-than-temporary impairments of equity securities in 2010 and 2009.

Net realized gains on commercial mortgage and other loans in 2010 were $18 million related to a net decrease in the loan loss reserve of $22 million, partially offset by net realized losses. Net realized losses on commercial mortgage and other loans in 2009 were $85 million related to a net increase in the loan loss reserve of $82 million and other net realized losses. 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 $489 million in 2010, compared to net realized losses of $298 million in 2009. Derivative gains in 2010 primarily reflect net mark-to-market gains of $404 million on interest rate derivatives used to manage duration as interest rates declined and net derivative gains of $74 million on currency derivatives used to hedge foreign denominated investments as the US dollar strengthened versus the euro. Also, contributing to the net derivative gains were net realized gains of $17 million on embedded derivatives associated with certain externally-managed investments in the European market. Derivative losses in 2009 primarily reflect net mark-to-market losses of $218 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio and net losses of $149 million related to currency derivatives used to hedge foreign denominated investments. Partially offsetting these losses were net gains of $52 million on embedded derivatives associated with certain externally-managed investments in the European market.

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Net realized losses on other investments were $4 million in 2010, which included $6 million of other-than-temporary impairments on joint ventures and partnerships investments. Net realized losses on other investments were $48 million in 2009 of which $51 million was related to other-than-temporary impairments on joint ventures and partnerships investments.

During 2010 we recorded other-than-temporary impairments of $208 million in earnings, compared to other-than-temporary impairments of $1,184 million recorded in earnings in 2009. 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, 2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 158	$ 465
Private fixed maturity securities	10	55
Total fixed maturity securities	168	520
Equity securities	34	613
Other invested assets(2)	6	51
Total	$ 208	$ 1,184

(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.

	Year Ended December 31, 2010		
	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 Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 66	$ 28	$ 94
Due to other accounting guidelines(3)	67	7	74
Total	$ 133	$ 35	$ 168

	Year Ended December 31, 2009		
	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 Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 319	$ 189	$ 508
Due to other accounting guidelines(3)	3	9	12

Total	$ 322	$ 198	$ 520

(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) 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 we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers as well as

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our intent to sell certain asset-backed securities collateralized by sub-prime mortgages. Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities and were primarily driven by 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.

Equity security other-than-temporary impairments in 2010 and 2009 were primarily due to circumstances where the decline in value was maintained for one year or greater.

General Account Investments

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 general account does not include: (1) assets of our trading and banking operations; (2) assets of our asset management operations, including assets managed for third parties; and (3) those assets classified as Separate account assets on our balance sheet.

The general account portfolio is managed pursuant to the distinct objectives and investment policy statements of the Financial Services Businesses and the Closed Block Business. The primary investment objectives of the Financial Services Businesses include:

- matching the liability characteristics of the major products and other obligations of the Company;
- maximizing the portfolio book yield within risk constraints over time; and
- for certain portfolios, maximizing total return, including both investment yield and capital gains, and preserving principal, within risk constraints, while matching the liability characteristics of their major products.

Our strategies for maximizing the portfolio book yield of the Financial Services Businesses over time include: (1) the investment of proceeds from investment sales, repayments and prepayments, and operating cash flows, into investments with competitive yields, and (2) where appropriate, the sale of the portfolio s lower yielding investments, either to meet various cash flow needs or to manage the portfolio s duration, credit, currency and other risk constraints, all while minimizing the amount of taxes on realized capital gains.

The primary investment objectives of the Closed Block Business include:

- providing for the reasonable dividend expectations of the participating policyholders within the Closed Block Business and the Class B shareholders; and
- maximizing total return, including both investment yield and capital gains, and preserving principal, within risk constraints, while matching the liability characteristics of the major products in the Closed Block Business.

While we continue to look to maximize book yield and match the liability characteristics of our major products, our portfolio management approach also reflects a consideration of the capital and tax implications of portfolio activity, our assertions regarding our ability and intent to hold equity securities to recovery, and our lack of any intention or requirement to sell debt securities before anticipated recovery. In consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we temporarily curtailed the active trading policy previously employed in the Closed Block Business and certain portfolios of the Financial Services Businesses. Starting in the second quarter of 2009, we resumed a more restricted trading program in these portfolios, and continue to evaluate trading strategies for these portfolios. For a further discussion of our policies regarding other-than-temporary impairments, including our assertions regarding our ability and intent to hold equity securities to recovery and any intention or requirement to sell debt securities before anticipated recovery, see Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities and Equity Securities Other-than-Temporary Impairments of Equity Securities, below.

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Management of Investments

We design asset mix strategies and derivative strategies for our general account to match the characteristics of our products and other obligations and seek to closely approximate the interest rate sensitivity, but not necessarily the exact cash flow characteristics, of the assets with the estimated interest rate sensitivity of the product liabilities. In certain markets, primarily outside the U.S., capital market limitations hinder our ability to acquire assets that closely approximate the duration of some of our liabilities. We achieve income objectives through asset/liability management, strategic and tactical asset allocations and derivative strategies within a disciplined risk management framework. Derivative strategies are employed within our risk management framework to help manage duration gaps, currency, and other risks between assets and liabilities. For a discussion of our risk management process see Quantitative and Qualitative Disclosures About Market Risk Risk Management, Market Risk and Derivative Instruments, and Other Than Trading Activities Insurance and Annuity Products Asset/Liability Management.

Our asset allocation also reflects our desire for broad diversification across asset classes, sectors and issuers. The Asset Management segment manages virtually all of our investments, other than those managed by our International Insurance segment, under the direction and oversight of the Asset Liability Management and Risk Management groups. Our International Insurance segment manages the majority of its investments locally, within enterprise risk constraints, in most cases using our international and domestic asset management capabilities.

The Investment Committee of our Board of Directors oversees our proprietary investments. It also reviews performance and risk positions periodically. Our portfolio management groups work with our Risk Management group to develop the investment policies for the general account assets of our domestic and international insurance subsidiaries, oversee the investment process for our general account and have the authority to initiate tactical shifts within exposure ranges approved annually by the Investment Committee.

The portfolio management groups, which are integrated within our businesses, work closely with Risk Management to ensure that the specific characteristics of our products are incorporated into their processes and to develop investment objectives, including performance factors and measures and asset allocation ranges. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. Most of our products can be categorized into the following three classes:

- interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities and universal life insurance;

- participating individual and experience-rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium; and

- guaranteed products for which there are price or rate guarantees for the life of the contract, such as traditional whole life and endowment products, guaranteed investment contracts and funding agreements.

We determine a target asset mix for each product class, which we reflect in our investment policies. Our asset/liability management process has permitted us to manage interest-sensitive products successfully through several market cycles.

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

On February 1, 2011, Prudential Financial completed the acquisition from AIG of the Star and Edison Businesses. Our Financial Services Businesses general account portfolio as of December 31, 2011 includes

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$44,843 million of invested assets at carrying value of the Star and Edison Businesses, which consists of $40,257 million of fixed maturity securities, $1,526 million of other long-term investments, $938 million of equity securities, $790 million of commercial mortgage and other loans, $570 million of policy loans, $542 million of trading account assets, primarily supporting insurance liabilities, and $220 million of short-term investments. Since completing the acquisition, we have been repositioning the portfolios for the Star and Edison Businesses in order to improve the interest rate exposure profile relative to liabilities, diversify credit and risk asset exposures, and reduce unhedged currency positions. We substantially completed that repositioning by year-end 2011 and, as of January 1, 2012, the Star and Edison portfolios have been integrated with the Gibraltar portfolio.

The following tables set forth the composition of the investments of our general account apportioned between the Financial Services Businesses and the Closed Block Business as of the dates indicated.

	December 31, 2011			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available-for-sale, at fair value	$ 179,086	$ 30,211	$ 209,297	60.6%
Public, held-to-maturity, at amortized cost	3,743	0	3,743	1.1
Private, available-for-sale, at fair value	26,938	16,305	43,243	12.5
Private, held-to-maturity, at amortized cost	1,364	0	1,364	0.4
Trading account assets supporting insurance liabilities, at fair value	19,481	0	19,481	5.6
Other trading account assets, at fair value	2,104	317	2,421	0.7
Equity securities, available-for-sale, at fair value	4,401	3,122	7,523	2.2
Commercial mortgage and other loans, at book value	25,073	9,040	34,113	9.9
Policy loans, at outstanding balance	6,263	5,296	11,559	3.3
Other long-term investments(1)	4,481	1,990	6,471	1.9
Short-term investments(2)	5,609	528	6,137	1.8
Total general account investments	278,543	66,809	345,352	100.0%
Invested assets of other entities and operations(3)	10,895	0	10,895	
Total investments	$ 289,438	$ 66,809	$ 356,247	

	December 31, 2010			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available-for-sale, at fair value	$ 124,577	$ 30,499	$ 155,076	56.3%
Public, held-to-maturity, at amortized cost	3,940	0	3,940	1.4
Private, available-for-sale, at fair value	23,108	14,678	37,786	13.7
Private, held-to-maturity, at amortized cost	1,286	0	1,286	0.5