2011

Prudential

PRUDENTIAL FINANCIAL, INC. ANNUAL REPORT

WHO WE ARE

For more than 135 years, Prudential Financial, Inc. has helped people grow and protect their wealth. We offer individual and institutional clients a wide array of financial products and services. Today, we are one of the world's largest financial services institutions. We have $901 billion in assets under management and approximately $3.6 trillion of gross life insurance in force worldwide as of December 31, 2011. We have operations in the United States, Asia, Europe and Latin America. We also have one of the most recognized and trusted brand symbols: The Rock®, an icon of strength, stability, expertise and innovation. We measure our long-term success by our ability to deliver value for shareholders, meet customer needs, attract and develop the best talent in our industry, offer an inclusive work environment where employees can develop to their full potential, and support the communities where we live and work.

MESSAGE FROM THE CHAIRMAN

"We underscore four contributors to our success as a company.

Our strategic portfolio of businesses.

The quality of our businesses.

Our financial strength.

Our focus on talent and culture."

JOHN STRANGFELD

Dear fellow shareholders:

Over the past few years, dramatic events have challenged the global financial system with wide-ranging repercussions, affecting businesses and individuals alike. 2011 was no exception, but I am pleased to report that in this year of continued market volatility, Prudential has distinguished itself in the markets we serve for the benefit of our customers and our shareholders.

Consistent with our commitment to provide long-term shareholder value, our company delivered solid earnings and our highest-ever dividend. Our businesses continued to demonstrate their strength through powerful sales and growth momentum. Our capital position remains strong, providing us flexibility to act opportunistically in pursuit of profitable, sustainable growth.

Each year, we underscore four main contributors to our success as a company.

1. Our **strategic portfolio of businesses,** which has been achieved by active design, represents a powerful blend of growth and stability.
2. Our **businesses' high quality** is due to strong leadership, fundamentals, risk management and positioning in their respective geographic and demographic markets.
3. Our **financial strength** provides not only protection to meet our promises, but freedom to grow our businesses and to innovate as we anticipate our clients' evolving needs.
4. Our **focus on talent and culture** serves as a competitive differentiator and supports our enterprise-wide emphasis on ethics and integrity.

This year, our progress and achievement in each of these pillars has rewarded us with solid results.

Our Financial Services Businesses reported net income for 2011 of $3.531 billion, or $7.22 per share of Common Stock, compared to $2.714 billion or $5.75 per share of Common Stock in 2010. On an after-tax adjusted operating income basis,* our Financial Services Businesses earned $3.134 billion in 2011, or $6.41 per share of Common Stock, compared to $2.916 billion or $6.17 per share of Common Stock in 2010.

We continue to gain ground and enhance our competitive position relative to our peers. This success reflects the strength of our portfolio, the strength of our business, the strength of our financial position, and the strength of our people. I am proud of the work we do as a company, and the way in which we do it.

Achieving an Optimal Business Portfolio

Under our strong, widely recognized brand, Prudential maintains a strategic mix of attractive, well-led businesses whose products, services, and risks complement one another.

By diversifying our portfolio of businesses across geographic and demographic markets, we diversify our risks, mitigating the vulnerability of the company's overall results and capital position to any particular element of risk, including interest rate levels and equity market risks.

For example, as of year-end 2011, we had approximately $3.6 trillion of gross life insurance in force worldwide. The mortality risk of life insurance helps balance the risks of our other products, such as the longevity risk of variable annuities and group annuities. Our balanced mix of businesses enables Prudential to provide financial growth and protection to clients at all stages of their lives.

*Adjusted operating income is not calculated under U.S. generally accepted accounting principles (GAAP) and is a financial measure we use to analyze the operating performance of our Financial Services Businesses. See footnote (1) on page 5 and footnote (A) on page 7 for a further description of adjusted operating income.

- **International Insurance,** anchored in Japan, is founded on lifetime client relationships and an emphasis on life insurance protection products, but is also successfully expanding distribution and innovating retirement-related products in a growing market.
- **Asset Management's** capabilities in multiple asset classes make us a leading asset manager of institutional and retail funds, and also provide a competitive advantage for Prudential's other businesses. Strong net flows are driving increasing assets under management leading to higher recurring asset management fees.
- **Individual Annuities** is a leader across multiple distribution channels, with our auto-rebalancing products serving to balance and improve our overall risk profile. Our proven and superior value proposition to clients is serving an increasing need for retirement income products in the market.
- **Retirement,** comprised of our full-service and institutional investment businesses, is a source of stable earnings, and is well positioned to act on market opportunities, particularly in the pension risk transfer market.
- **Individual Life and Group Insurance** provide stable cash flows, largely mortality-driven risks, and potentially attractive returns largely uncorrelated to the equity markets based on effective capital and risk management and cost-effective distribution.

We have achieved our balanced portfolio thoughtfully and proactively, through strong business management, steady organic growth, strategic acquisitions, and deliberate divestitures over time.

In 2011, we significantly increased our presence in the world's second largest life insurance market, Japan, by completing the purchase of AIG Star and AIG Edison. Also, in 2011, we announced and completed the sales of Prudential Bache Global Commodities, and of Prudential Real Estate and Relocation Services, the company's real estate brokerage and relocation services unit. These are quality companies whose business activities were not core to our central mission. Their divestiture represents the continual fine-tuning of our portfolio, allowing us to redeploy the capital that was supporting these businesses to those more central to our mission.

Going forward, we will continue to evaluate opportunities to enhance and complement our nucleus of businesses. Although we expect to enhance our competitive position through broader international growth, we do not expect a radical shift in our portfolio. Our present mix of high-quality businesses reflects our long-term strategy to capitalize on our unique combination of life insurance and asset management expertise that enables our individual and institutional clients to grow and protect their wealth.

Operating High-Quality Businesses

At Prudential, we seek leadership positions wherever we compete. In order to perform at a market-leading level, we know we must offer not only products and services of high value to our customers today, but we must also develop products and services that anticipate their needs of tomorrow.

To accomplish this, we work to make certain our company possesses the strength and appropriate scale to meet each and every promise to our customers. In addition, we continually strive to deepen our relationships with both our existing and emerging customer base.

This type of commitment to customers does not go unnoticed. As an example, this year, Prudential received the highest ranking by J.D. Power Asia Pacific in the 2011 Japan Life Insurance Contract Customer Satisfaction Study, outranking leading domestic and foreign-owned insurers.

One of the ways that we gauge our **value** to customers is in terms of *sales,* based on annualized new business premiums, and *net flows.*

- **International Insurance** sales were a record $3.0 billion in 2011 on a constant U.S. dollar basis, including $728 million attributable to the acquired Star and Edison operations, up 63% from a year ago. On a comparable basis, excluding Star and Edison, sales were up 24%.
- **Asset Management** segment assets under management were more than $619 billion as of year-end 2011, up 15% from a year ago, reflecting net institutional flows, excluding money market activity, of more than $16 billion in 2011.
- **Individual Annuities** account values were $113.5 billion as of year-end 2011, up 7% from a year ago, reflecting net flows of $11.7 billion in 2011.
- **Retirement** account values were $229.5 billion as of year-end 2011, up 12% from a year ago, reflecting net flows of $19.3 billion in 2011.
- **Group Insurance** sales were $690 million in 2011, up 14% from a year ago.
- **Individual Life** sales were $278 million in 2011, up 7% from a year ago.

We demonstrate our **performance** in the marketplace through earnings, which we measure for our businesses by *pre-tax adjusted operating income.*

- **International Insurance** reported pre-tax adjusted operating income of $2.7 billion for the year, compared to $2.1 billion a year ago.
- **Asset Management** reported pre-tax adjusted operating income of $659 million for the year, compared to $487 million a year ago.
- **Individual Annuities** reported pre-tax adjusted operating income of $713 million for the year, compared to $1.0 billion a year ago.
- **Retirement** reported pre-tax adjusted operating income of $598 million for the year, compared to $572 million a year ago.

- **Group Insurance** reported pre-tax adjusted operating income of $208 million for the year, compared to $215 million a year ago.
- **Individual Life** reported pre-tax adjusted operating income of $517 million for the year, compared to $500 million a year ago.

One of the ways that we measure our aggregate success is through *total assets under management,* which were $901 billion as of year-end 2011, up from $784 billion from the previous year.

International

Expanding our international operations is a vital component of our long-term strategy.

For more than 20 years, Prudential has achieved extensive growth and success in international insurance operations, and we remain committed to achieving growth in both new and existing markets, channels, and products that offer solid returns on our investment.

In Japan, a developed market with deep insurance product penetration, we see significant opportunity. Because Japan has an aging population and the world's largest pool of assets invested in low-return savings accounts, we see opportunity for retirement-oriented products. Accordingly, we believe in Japan's retirement market prospects and are positioned to invest for growth.

To this end, we built on our strategic acquisition of AIG Star and AIG Edison by completing the successful legal merger of those two distinct entities with our existing Gibraltar Life operations on January 1 of this year. This is an exceptional accomplishment, not only due to the merger's ambitious timeline, and not only because of its importance to our continued growth in Japan, but also in light of the extraordinary circumstances faced by all of our Japan-based businesses in the wake of the Tohoku earthquake and tsunami in March 2011.

The combination of resources will augment our service of the Japanese broad middle-income market, which is enhanced by our rapidly growing bank channel, our sizeable independent agent channel, and our valuable relationship with the Teachers' Association of Japan.

In China, a major emerging market where insurance penetration and density are still far below global average levels—an indication of vast growth potential—Prudential took two important steps this year to extend our presence. In April 2011, Prudential signed a definitive agreement with Fosun Group, a large privately owned holding company in China, to establish a private equity fund for the Chinese marketplace. In September 2011, Prudential and Fosun received regulatory approval to develop a life insurance joint venture to be headquartered in Shanghai.

Building and Deploying Financial Strength

Prudential actively manages its capital, liquidity, and investment portfolio to retain financial strength as a competitive advantage, allowing the company to not only withstand but also compete effectively in a wide range of market conditions. Our investment portfolio remains of high quality and is broadly diversified.

As a result of prudent and proactive capital management, we are not capital constrained, which gives us the ability to pursue attractive acquisitions and act on organic opportunities to innovate and grow. Our 2011 dividend—the highest that Prudential has ever paid—was a demonstration of our financial strength and our commitment to return capital to our shareholders.

Our capital deployment strategy has also included share buybacks. Under an authorization by Prudential's Board of Directors issued in June 2011 to repurchase at management's discretion up to $1.5 billion of the company's outstanding Common Stock through June 2012, the company acquired 19.8 million shares of its Common Stock at a total cost of approximately $1.0 billion, representing the repurchases made during the second half of 2011.

In addition, we employ a robust capital protection framework to ensure availability of adequate capital under reasonably foreseeable stress scenarios. This framework is used to assess potential capital needs arising from market-related distress and identify sources of capital available to meet those needs.

The strength and flexibility afforded by our financial position endows us with the freedom to pioneer new products and services that anticipate the evolving needs of our clients.

For example, one area where we are putting capital and innovation to work is the pension risk transfer market. Here, we have expanded our product platform to help clients meet pension funding requirements, thereby increasing the security of the promise that pension plans offer to participants around the world. In 2011, Prudential completed four pension risk transfer transactions, including its first longevity reinsurance transaction and the U.S.'s first pension plan risk transfer transaction utilizing a buy-in of a specially designed annuity product.

Another product that differentiates us from our peers is our Highest Daily Lifetime Income benefit. We pioneered this innovative variable annuity living benefit in 2006.

Engaging with Stakeholders

Further supporting our financial strength is appropriate, meaningful regulation of our industry and our company. We are active participants in the ongoing regulatory dialogue on the modernization and improvement of insurance regulation in the United States. We are constructively engaged with the Federal Reserve and the Treasury Department, with other stakeholders in

Washington, with state regulatory authorities and with other industry partners to develop a regulatory framework that is appropriate for our business.

Prudential has a strong reputation in a number of areas, including social responsibility, governance, diversity, ethics, and community and stakeholder engagement. We are proud of the numerous recognitions that we have received, and are committed to building on our progress. This year, Prudential will introduce its inaugural Sustainability Report to highlight our strategies, activities and accomplishments in a consolidated and standardized way. Our hope is that this report will serve as a helpful resource for stakeholders who would like a clear summary of our current practices and future aspirations.

Fostering a Talent Culture

At Prudential, we have always been proud of the strength of our people, who have built the strong brand that our clients have associated with quality and excellence for more than 135 years.

Our long-standing commitment to diversity and workplace inclusion is well known. For us, diversity is not merely an internal focus. Our diversity strategy also guides our business strategy. For more than a decade, Prudential has been conducting research into diverse market segments, including women, African Americans and Asian Americans, to more effectively understand customer needs in these markets and to enhance Prudential's reputation as a reliable source of financial information.

Because of the special value that veterans bring to the workplace, we are working with other companies and partners to champion veterans and improve their access to quality education, job training, and employment opportunities. We expanded our work-study VETalent program to new cities and universities to continue to prepare veterans for new careers.

Building on the recognition that we have received in prior years, *FORTUNE®* magazine named Prudential the world's most admired insurance company in the life and health category for 2012. We have also received numerous acknowledgments for our leadership as an employer of choice.

In a people-centered industry, our talent is a source of strategic differentiation. We are fostering a talent culture—one that raises the bar for performance by unleashing the leadership potential of all employees. This culture is responsible for the high expectations we hold for ourselves in terms of the quality of what we do and ensuring we do it in the right way.

From our solid base of ethics and integrity, we are expanding programs to recognize and encourage outstanding employee contributions toward greater efficiency, innovation, and service. All employees are being asked to embody a talent mindset, one that instills a sense of individual responsibility for personal and professional development, as well as for the nurturing of others.

We apply this talent mindset not only in the workplace, but also in the communities where we live. Prudential's employees volunteered more than 175,000 hours, fostering skills that are also applicable in the workplace, and reinforcing character and integrity—two attributes essential to success at our company. The philanthropic outreach of the Prudential Foundation extends these efforts both locally and overseas.

We have a lot to be proud of as we look back at 2011, as well as at the last ten years since becoming a public company. 2001 ushered in a decade of extraordinary change—more change than at any time in the company's history, and Prudential has emerged as an admired multinational insurance and financial services leader. We are proud, but not content. We also have much to look forward to, and I am excited and optimistic about the opportunities that lie ahead.

Thank you for your confidence in Prudential.

Sincerely,

JOHN STRANGFELD
Chairman of the Board,
Chief Executive Officer and President

External recognition of Prudential's commitment to diversity and to providing a supportive workplace

Recognition	Prudential's Record
Working Mother, "100 Best Companies"	22 years
Latina Style, "50 Best Companies for Latinas in the U.S."	14 years
DiversityInc, "Top 50 Companies for Diversity"	11 years
Human Rights Campaign, Corporate Equality Index	11 years
National Association for Female Executives, "Top 50 Companies for Executive Women"	11 years
Hispanic Business, "Diversity Elite 60"	8 years
Military Times EDGE, "Best for Vets Employers"	2 years
GI Jobs, "Great Place to Work for Veterans"	2 years
Black Enterprise and *ComputerWorld*	New in 2012

NOTES

(1) Adjusted operating income, which is not measured in accordance with accounting principles generally accepted in the United States of America (GAAP), excludes "Realized investment gains (losses), net," as adjusted, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities as well as our tax and capital profile. Realized investment gains (losses) within certain of our businesses for which such gains (losses) are a principal source of earnings, and those associated with terminating hedges of foreign currency earnings and current period yield adjustments are included in adjusted operating income. Adjusted operating income excludes realized investment gains and losses from products that contain embedded derivatives, and from associated derivative portfolios that are part of a hedging program related to the risk of those products. Adjusted operating income also excludes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged or considered part of our capital funding strategies for our international subsidiaries, as well as gains and losses on certain investments that are classified as other trading account assets. Adjusted operating income also excludes investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes, because these recorded changes in asset and liability values are expected to ultimately accrue to contractholders. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of these transactions. In addition, adjusted operating income excludes the results of divested businesses, which are not relevant to our ongoing operations. Discontinued operations, which is presented as a separate component of net income under GAAP, is also excluded from adjusted operating income. We believe that the presentation of adjusted operating income as we measure it for management purposes enhances understanding of the results of operations of the Financial Services Businesses by highlighting the results from ongoing operations and the underlying profitability of our businesses. However, adjusted operating income is not a substitute for income determined in accordance with GAAP, and the adjustments made to derive adjusted operating income are important to an understanding of our overall results of operations. References to adjusted operating income and net income refer to amounts attributable to Prudential Financial, Inc.

All facts and figures are as of or for the year ended December 31, 2011, unless otherwise noted.

J.D. Power Asia Pacific 2011 Japan Life Insurance Contract Customer Satisfaction Study℠. Study based on a total of 4,469 life insurance policyholders who purchased or renewed coverage during the past year. www.jdpower.co.jp.

Life insurance and annuities issued by The Prudential Insurance Company of America, Newark, NJ, and its insurance affiliates.

Prudential Retirement's group variable annuity contracts are issued by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT.

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FINANCIAL HIGHLIGHTS

Financial Services Businesses

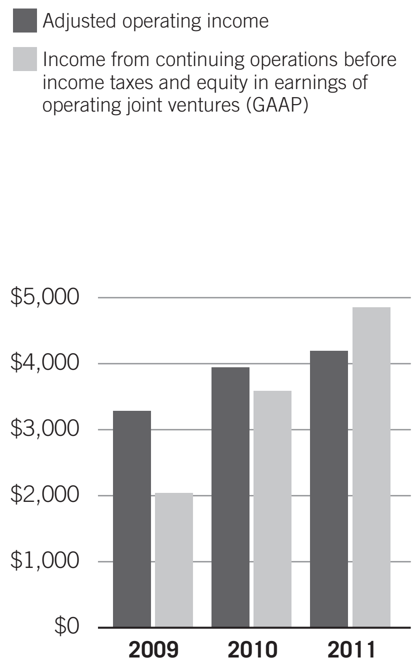
In millions, except per share amounts *For the years ended December 31,*	2011	2010	2009
RESULTS BASED ON ADJUSTED OPERATING INCOME (A)			
Revenues	$ 39,397	$ 30,530	$ 26,823
Benefits and expenses	35,124	26,548	23,535
Adjusted operating income before income taxes	$ 4,273	$ 3,982	$ 3,288
Operating return on average equity (B)	10.25%	10.86%	11.16%
GAAP RESULTS			
Revenues	$ 42,030	$ 31,114	$ 27,135
Benefits and expenses	37,110	27,447	25,131
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 4,920	$ 3,667	$ 2,004
Return on average equity (B)	10.52%	9.63%	18.33%
EARNINGS PER SHARE OF COMMON STOCK—diluted			
Adjusted operating income after income taxes	$ 6.41	$ 6.17	$ 5.53
Reconciling items:			
Realized investment gains (losses), net, and related charges and adjustments	1.40	(0.13)	(3.81)
Other reconciling items	0.31	(0.32)	6.19
Tax (expense) benefit on above	(0.98)	(0.04)	(0.24)
Income from continuing operations of the Financial Services Businesses attributable to Prudential Financial, Inc. (after-tax)	$ 7.14	$ 5.68	$ 7.67

Consolidated Information

In millions, unless otherwise noted *As of or for the years ended December 31,*	2011	2010	2009
GAAP RESULTS			
Total revenues	$ 49,045	$ 38,200	$ 32,380
Income (loss) after income taxes:			
Continuing operations	$ 3,703	$ 3,173	$ 3,109
Discontinued operations	35	33	(19)
Less: Noncontrolling interests	72	11	(34)
Consolidated net income (loss) attributable to Prudential Financial, Inc.	$ 3,666	$ 3,195	$ 3,124
Net income (loss) attributable to Prudential Financial, Inc.			
Financial Services Businesses	$ 3,531	$ 2,714	$ 3,411
Closed Block Business	135	481	(287)
Consolidated net income (loss) attributable to Prudential Financial, Inc.	$ 3,666	$ 3,195	$ 3,124
FINANCIAL POSITION			
Invested assets	$356,247	$283,912	$260,552
Total assets	$624,521	$539,854	$480,203
Attributed equity:			
Financial Services Businesses	$ 35,650	$ 31,032	$ 24,154
Closed Block Business	1,573	1,383	1,041
Total attributed equity	$ 37,223	$ 32,415	$ 25,195
Assets under management *(in billions)*	$ 901	$ 784	$ 667

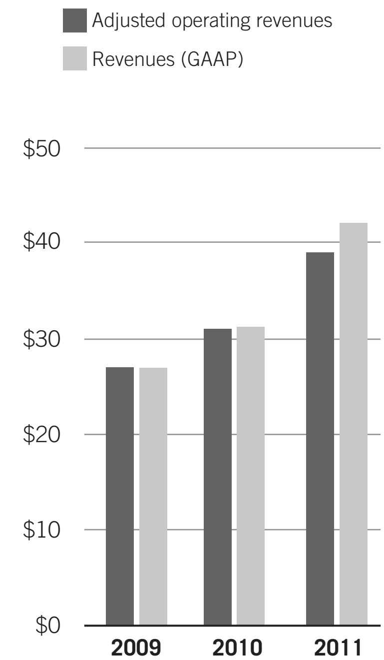
Financial Services Businesses Adjusted Operating Income(A) and Income from Continuing Operations

(pre-tax, in millions)



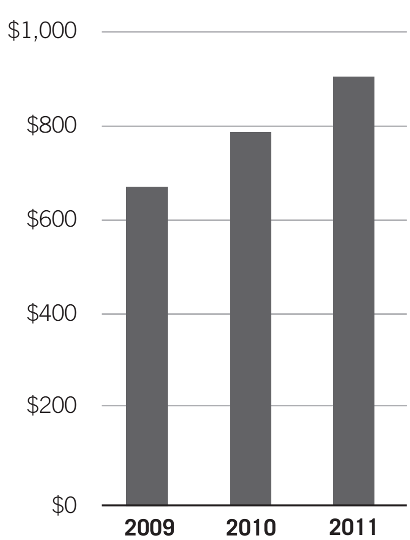
Financial Services Businesses Adjusted Operating Revenues(A) and GAAP Revenues

(in billions)

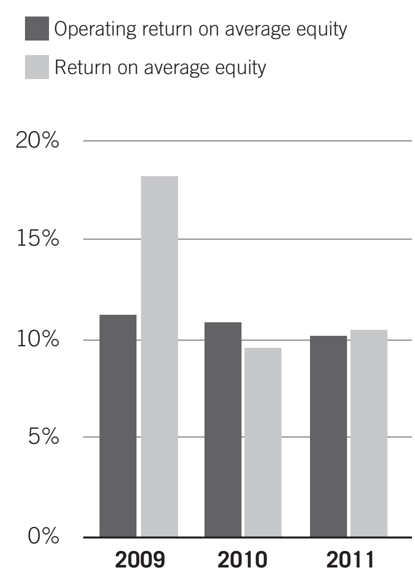


Assets Under Management

(in billions)



Financial Services Businesses Operating Return on Average Equity(B) and Return on Average Equity(B)



(A) Adjusted operating income is a non-GAAP measure of performance of our Financial Services Businesses that excludes "Realized investment gains (losses), net," as adjusted, and related charges and adjustments; net investment gains and losses on trading account assets supporting insurance liabilities; change in experience-rated contractholder liabilities due to asset value changes; results of divested businesses and discontinued operations; earnings attributable to noncontrolling interests; and the related tax effects thereof. Adjusted operating income includes equity in earnings of operating joint ventures and the related tax effects thereof. Revenues and benefits and expenses shown as components of adjusted operating income, are presented on the same basis as pre-tax adjusted operating income and are adjusted for the items above as well.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of results based on adjusted operating income and the Consolidated Financial Statements for a reconciliation of results based on adjusted operating income to GAAP results.

(B) Operating return on average equity is calculated by dividing adjusted operating income after income taxes by average attributed equity for the Financial Services Businesses excluding accumulated other comprehensive income related to unrealized gains and losses on investments and pension and postretirement benefits. An alternative measure to operating return on average equity is return on average equity. Return on average equity is calculated by dividing income from continuing operations after-tax of the Financial Services Businesses attributable to Prudential Financial, Inc. by average total attributed equity for the Financial Services Businesses. Both income amounts above give effect to the direct equity adjustment for earnings per share calculation.

FINANCIAL SECTION

Some of the statements included in this Annual Report may contain forward-looking statements within the meaning of the U.S. Private Securities Reform Act of 1995. Please see page 276 for a description of certain risks and uncertainties that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements.

TABLE OF CONTENTS

	Page Number
Selected Financial Data	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Quantitative and Qualitative Disclosures About Market Risk	136
Consolidated Financial Statements:	
Management's Annual Report on Internal Control Over Financial Reporting	141
Report of Independent Registered Public Accounting Firm	142
Consolidated Statements of Financial Position as of December 31, 2011 and 2010	143
Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009	144
Consolidated Statements of Equity for the years ended December 31, 2011, 2010 and 2009	145
Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009	146
Notes to Consolidated Financial Statements	147
Supplemental Combining Financial Information	271
Market Price of and Dividends on Common Equity and Related Stockholder Matters	274
Performance Graph	275
Forward-Looking Statements	276

Throughout this Annual Report, "Prudential Financial" refers 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.

Financial Services Businesses and Closed Block Business

Effective with the date of demutualization, we established the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses refer to the businesses in our three operating divisions 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. The Common Stock reflects the performance of the Financial Services Businesses, but there can be no assurance that the market value of the Common Stock will reflect solely the financial performance of these businesses. The Class B Stock, which was issued in a private placement on the date of the demutualization, reflects the financial performance of the Closed Block Business, as defined in Note 22 to the Consolidated Financial Statements.

We allocate all of our assets, liabilities and earnings between the Financial Services Businesses and Closed Block Business as if they were separate legal entities, but there is no legal separation between these two businesses. Holders of both the Common Stock and the Class B Stock are common stockholders of Prudential Financial and, as such, are subject to all the risks associated with an investment in Prudential Financial and all of its businesses. The Common Stock and the Class B Stock will be entitled to dividends, if and when declared by Prudential Financial's Board of Directors from funds legally available to pay them, as if the businesses were separate legal entities. See Note 15 to the Consolidated Financial Statements for a discussion of liquidation rights of the Common Stock and the Class B Stock, dividend restrictions on the Common Stock if we do not pay dividends on the Class B Stock when there are funds legally available to pay them and conversion rights of the Class B Stock.

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.

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
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share—Class B Stock	$ 55.50	$222.50	$(165.00)	$ (16.00)	$ 69.50
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

	As of December 31,				
	2011	2010	2009	2008	2007
	(in millions)				
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.

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," "Selected Financial Data" and the "Consolidated Financial Statements" included in this Annual Report, as well as the "Risk Factors" included in Prudential Financial's 2011 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.

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.

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.

See "Risk Factors" included in Prudential Financial's 2011 Annual Report on Form 10-K 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.

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.

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” included in Prudential Financial’s 2011 Annual Report on Form 10-K 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.

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	2009
	(in millions)		
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.
- 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 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 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.

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.

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 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.

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."

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 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 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 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

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.

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.

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.

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

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. 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 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.

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.
(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. 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.

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.

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.

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 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	2009
		(1) (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.

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 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.

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.

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.

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.

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.

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.

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%

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.

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.

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	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. 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 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.

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, 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 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, 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 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 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.

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" included in Prudential Financial's 2011 Annual Report on Form 10-K. 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.

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 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

	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.

	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

	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. 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.

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.

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.

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	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.

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.

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.

	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.

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."

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

	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.

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.

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 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.

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 $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
Trading account assets supporting insurance liabilities, at fair value	17,771	0	17,771	6.5
Other trading account assets, at fair value	1,220	156	1,376	0.5
Equity securities, available-for-sale, at fair value	4,135	3,593	7,728	2.8
Commercial mortgage and other loans, at book value	21,901	8,507	30,408	11.0
Policy loans, at outstanding balance	5,290	5,377	10,667	3.9
Other long-term investments(1)	2,988	1,582	4,570	1.6
Short-term investments(2)	3,698	1,164	4,862	1.8
Total general account investments	209,914	65,556	275,470	100.0%
Invested assets of other entities and operations(3)	8,442	0	8,442	
Total investments	$218,356	$65,556	$283,912	

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see "—Other Long-Term Investments" below.
(2) Short-term investments have virtually no sub-prime exposure.
(3) Includes invested assets of trading and banking operations, real estate and relocation services and asset management operations. Excludes assets of our asset management operations managed for third parties and those assets classified as "Separate account assets" on our balance sheet. For additional information regarding these investments, see "—Invested Assets of Other Entities and Operations" below.

As of December 31, 2011, the average duration of our general account investment portfolio attributable to the domestic Financial Services Businesses, including the impact of derivatives, is between 4 and 5 years. The general account investments attributable to the Financial Services Businesses increased in 2011 primarily due to the acquisition of the Star and Edison Businesses, portfolio growth as a result of reinvestment of net investment income, and a net increase in fair value driven by a decrease in interest rates. The general account investments attributable to the Closed Block Business increased in 2011 primarily due to portfolio growth as a result of reinvestment of net investment income and an increase in fair value driven by a decrease in interest rates, partially offset by net operating outflows. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 20 to the Consolidated Financial Statements.

We have substantial insurance operations in Japan, with 50% and 38% of our Financial Services Businesses' general account investments relating to our Japanese insurance operations as of December 31, 2011 and December 31, 2010, respectively. The following table sets forth the composition of the investments of our Japanese insurance operations' general account as of the dates indicated.

	December 31,	
	2011	2010
	(in millions)	
Fixed Maturities:		
Public, available-for-sale, at fair value	$111,857	$60,115
Public, held-to-maturity, at amortized cost	3,743	3,940
Private, available-for-sale, at fair value	5,020	3,304
Private, held-to-maturity, at amortized cost	1,364	1,286
Trading account assets supporting insurance liabilities, at fair value	1,732	1,518
Other trading account assets, at fair value	1,496	702
Equity securities, available-for-sale, at fair value	1,932	1,612
Commercial mortgage and other loans, at book value	5,672	4,202
Policy loans, at outstanding balance	2,873	2,083
Other long-term investments(1)	2,892	1,320
Short-term investments	702	211
Total Japanese general account investments(2)	$139,283	$80,293

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.
(2) Excludes assets classified as "Separate accounts assets" on our balance sheet.

As of December 31, 2011, the average duration of our general account investment portfolio related to our Japanese insurance operations, including the impact of derivatives, was approximately 10 years. The increase in general account investments related to our Japanese insurance operations in 2011 was primarily attributable to the impact of the acquisition of the Star and Edison Businesses, gains on foreign currency exchange rates on yen assets, portfolio growth as a result of business inflows and the impact of declining interest rates, partially offset by yen strengthening on non-yen assets.

Our Japanese insurance operations use the yen as their functional currency, as it is the currency in which they conduct the majority of their operations. Although the majority of the Japanese general account is invested in yen-denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. and Australian dollars.

As of December 31, 2011, our Japanese insurance operations had $38.4 billion, at fair value, of investments denominated in U.S. dollars, including $4.4 billion that were hedged to yen through third party derivative contracts and $25.9 billion that support liabilities denominated in U.S. dollars. As of December 31, 2010, our Japanese insurance operations had $18.9 billion, at fair value, of investments denominated in U.S. dollars, including $0.7 billion that were hedged to yen through third party derivative contracts and $10.7 billion that support liabilities denominated in U.S. dollars. The $19.5 billion increase of U.S. dollar investments at fair value from December 31, 2010 is primarily driven by $14.6 billion from the Star and Edison Businesses' U.S. dollar-denominated assets supporting U.S. dollar liabilities.

For additional information regarding U.S. dollar investments held in our Japanese insurance operations, see "—Results of Operations for Financial Services Businesses by Segment—International Insurance Division."

As of December 31, 2011, our Japanese insurance operations had $6.4 billion, at fair value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars. As of December 31, 2010, our Japanese insurance operations had $1.8 billion, at fair value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars. The $4.6 billion increase of Australian dollar investments at fair value from December 31, 2010 is primarily driven by $2.6 billion from the Star and Edison Businesses' Australian dollar-denominated assets supporting Australian dollar liabilities.

Eurozone Exposure

Our investment portfolio includes direct investment exposure to the Eurozone region. We define this region as consisting of those countries within the European Union that have adopted the euro as their sole legal currency. The Eurozone region currently consists of seventeen countries, including Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Included in this region are peripheral countries, which we currently define as consisting of Portugal, Italy, Ireland, Greece and Spain. Specific country exposure is determined based on the issuer's country of incorporation.

The following tables set forth the composition of our gross direct exposure to the Eurozone region, by country of incorporation, attributable to our general account, as of December 31, 2011.

Eurozone Gross Direct Exposure—Financial Services Businesses

	December 31, 2011							
	Amortized Cost				Fair Value			
Country	Sovereigns(6)	Financial Institutions(7)	All Other Exposure	Total Amortized Cost	Sovereigns(6)	Financial Institutions(7)	All Other Exposure	Total Fair Value
	(in millions)							
Non-peripheral countries:								
France	$ 555	$ 692	$1,959	$ 3,206	$ 542	$ 616	$2,060	$ 3,218
Netherlands	0	1,191	1,727	2,918	0	1,180	1,725	2,905
Germany	125	924	786	1,835	125	879	788	1,792
Luxembourg	0	157	1,388	1,545	0	154	1,366	1,520
Other non-peripheral(1)	32	269	399	700	31	265	404	700
Total non-peripheral exposure	712	3,233	6,259	10,204	698	3,094	6,343	10,135
Peripheral countries:								
Italy(2)	478	50	171	699	414	44	152	610
Ireland	0	77	521	598	0	75	530	605
Spain	49	34	259	342	45	29	227	301
Other peripheral(3)	0	0	89	89	0	0	94	94
Total peripheral exposure	527	161	1,040	1,728	459	148	1,003	1,610
International agencies(4)	0	1,341	0	1,341	0	1,315	0	1,315
Total exposure(5)	$1,239	$4,735	$7,299	$13,273	$1,157	$4,557	$7,346	$13,060

Eurozone Gross Direct Exposure—Closed Block Business

	December 31, 2011							
	Amortized Cost				Fair Value			
Country	Sovereigns(6)	Financial Institutions(7)	All Other Exposure	Total Amortized Cost	Sovereigns(6)	Financial Institutions(7)	All Other Exposure	Total Fair Value
				(in millions)				
Non-peripheral countries:								
France	$52	$110	$ 766	$ 928	$53	$103	$ 840	$ 996
Netherlands	5	293	622	920	5	289	702	996
Germany	8	17	623	648	8	15	646	669
Luxembourg	4	35	488	527	4	37	515	556
Other non-peripheral(1)	2	132	197	331	2	128	205	335
Total non-peripheral exposure	71	587	2,696	3,354	72	572	2,908	3,552
Peripheral countries:								
Italy	6	33	57	96	6	28	55	89
Ireland	0	69	295	364	0	54	323	377
Spain	0	29	96	125	0	25	88	113
Other peripheral(3)	0	2	20	22	0	2	21	23
Total peripheral exposure	6	133	468	607	6	109	487	602
International agencies(4)	0	0	0	0	0	0	0	0
Total exposure(5)	$77	$720	$3,164	$3,961	$78	$681	$3,395	$4,154

(1) Other non-peripheral countries include Austria, Belgium, Cyprus, Estonia, Finland, Malta, Slovakia, and Slovenia.
(2) Principally represents Italian government securities owned by our Italian insurance operations.
(3) Other peripheral countries include Greece and Portugal.
(4) International agencies include agencies such as Eurofima, European Investment Bank, Council of Europe Development, and Nordic Investment Bank, where a single country of incorporation could not be determined.
(5) For the Financial Services Businesses, of the $13,273 million of amortized cost represented above, 86% is related to fixed maturities, 7% is related to trading account assets supporting insurance liabilities, and the remaining 7% is related to all other asset types. For the Closed Block Business, of the $3,961 million of amortized cost represented above, 93% is related to fixed maturities, and the remaining 7% is related to all other asset types.
(6) Sovereigns include local governments.
(7) Financial institutions include banking, brokerage, non-captive consumer and diversified finance, health insurance, life insurance, property and casualty insurance, other finance and real estate investment trusts.

Investment Results

The following tables set forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of our general account for the periods indicated.

	Year Ended December 31, 2011					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	3.83%	$7,063	5.67%	$2,232	4.16%	$ 9,295
Trading account assets supporting insurance liabilities	4.23	776	0.00	0	4.23	776
Equity securities	5.93	240	2.75	75	4.65	315
Commercial mortgage and other loans	5.62	1,295	6.47	553	5.85	1,848
Policy loans	4.71	277	6.22	322	5.41	599
Short-term investments and cash equivalents	0.36	46	0.72	4	0.37	50
Other investments	3.64	246	8.82	174	4.83	420
Gross investment income before investment expenses	3.90	9,943	5.78	3,360	4.24	13,303
Investment expenses	(0.11)	(230)	(0.25)	(146)	(0.14)	(376)
Investment income after investment expenses	3.79%	9,713	5.53%	3,214	4.10%	12,927
Investment results of other entities and operations(2)		197		0		197
Total investment income		$9,910		$3,214		$13,124

	Year Ended December 31, 2010					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.33%	$5,927	5.91%	$2,326	4.69%	$ 8,253
Trading account assets supporting insurance liabilities	4.51	750	0.00	0	4.51	750
Equity securities	6.33	212	2.70	74	4.70	286
Commercial mortgage and other loans	6.01	1,256	6.61	536	6.18	1,792
Policy loans	5.00	243	6.38	334	5.71	577
Short-term investments and cash equivalents	0.29	36	0.56	5	0.30	41
Other investments	4.71	193	6.66	115	5.28	308
Gross investment income before investment expenses	4.34	8,617	5.88	3,390	4.69	12,007
Investment expenses	(0.13)	(208)	(0.24)	(143)	(0.15)	(351)
Investment income after investment expenses	4.21%	8,409	5.64%	3,247	4.54%	11,656
Investment results of other entities and operations(2)		209		0		209
Total investment income		$8,618		$3,247		$11,865

	Year Ended December 31, 2009					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.54%	$5,691	6.07%	$2,382	4.90%	$ 8,073
Trading account assets supporting insurance liabilities	5.11	743	0.00	0	5.11	743
Equity securities	6.32	225	2.85	77	4.82	302
Commercial mortgage and other loans	5.85	1,237	6.68	556	6.08	1,793
Policy loans	5.19	225	6.54	344	5.93	569
Short-term investments and cash equivalents	0.52	66	3.02	31	0.68	97
Other investments	3.16	138	(4.01)	(72)	1.06	66
Gross investment income before investment expenses	4.50	8,325	5.69	3,318	4.78	11,643
Investment expenses	(0.15)	(218)	(0.23)	(140)	(0.17)	(358)
Investment income after investment expenses	4.35%	8,107	5.46%	3,178	4.61%	11,285
Investment results of other entities and operations(2)		112		0		112
Total investment income		$8,219		$3,178		$11,397

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period's yields are presented on a basis consistent with the current period presentation.
(2) Includes investment income of trading and banking operations, real estate and relocation services and asset management operations.

See below for a discussion of the change in the Financial Services Businesses' yields. The decrease in net investment income yield attributable to the Closed Block Business for 2011 compared to 2010, was primarily due to lower interest rates on floating rate investments due to rate resets and lower fixed income reinvestment rates.

The increase in net investment income yield attributable to the Closed Block Business for 2010 compared to 2009, was primarily due to investments in joint ventures and limited partnerships, driven by appreciation and gains on the underlying assets, partially offset by the impact of lower interest rates on floating rate investments due to rate resets and lower fixed income reinvestment rates.

The following tables set forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of the Financial Services Businesses' general account, excluding the Japanese operations' portion of the general account which is presented separately below, for the periods indicated.

	Year Ended December 31,					
	2011		2010		2009	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	5.46%	$4,219	5.58%	$4,194	5.74%	$4,172
Trading account assets supporting insurance liabilities	4.45	742	4.73	724	5.38	721
Equity securities	9.04	167	9.29	168	9.84	167
Commercial mortgage and other loans	6.06	1,083	6.32	1,081	6.04	1,070
Policy loans	5.81	187	5.72	171	5.94	162
Short-term investments and cash equivalents	0.25	23	0.30	32	0.50	55
Other investments	4.02	83	3.21	61	0.39	9
Gross investment income before investment expenses	5.08	6,504	5.16	6,431	5.27	6,356
Investment expenses	(0.11)	(88)	(0.12)	(102)	(0.15)	(116)
Investment income after investment expenses	4.97%	6,416	5.04%	6,329	5.12%	6,240
Investment results of other entities and operations(2)		197		209		112
Total investment income		$6,613		$6,538		$6,352

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period's yields are presented on a basis consistent with the current period presentation.
(2) Includes investment income of trading and banking operations, real estate and relocation services and asset management operations.

The decrease in net investment income yield attributable to the Financial Services Businesses' general account, excluding the Japanese operations' portfolio, for 2011 compared to 2010 was primarily the result of lower interest rates on floating rate investments due to rate resets and lower fixed maturity reinvestment rates, partially offset by higher income from our joint venture and limited partnerships, driven by appreciation and gains on the underlying assets.

The decrease in net investment income yield attributable to the Financial Services Businesses' general account, excluding the Japanese operations' portfolio, for 2010 compared to 2009 was primarily a result of lower interest rates on floating rate investments from rate resets and lower fixed maturity reinvestment rates, partially offset by an increase in other investment yields driven by favorable joint venture and limited partnership earnings driven by appreciation on the underlying assets.

The following tables set forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of our Japanese operations' general account for the periods indicated.

	Year Ended December 31,					
	2011		2010		2009	
	Yield(1)(2)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	2.66%	$2,844	2.81%	$1,733	2.88%	$1,519
Trading account assets supporting insurance liabilities	1.99	34	1.98	26	1.98	22
Equity securities	3.33	73	2.84	44	3.13	58
Commercial mortgage and other loans	4.10	212	4.63	175	4.85	167
Policy loans	3.37	90	3.85	72	3.91	63
Short-term investments and cash equivalents	0.62	23	0.24	4	0.62	11
Other investments	3.48	163	6.01	132	6.26	129
Gross investment income before investment expenses	2.70	3,439	2.97	2,186	3.05	1,969
Investment expenses	(0.11)	(142)	(0.14)	(106)	(0.15)	(102)
Total investment income	2.59%	$3,297	2.83%	$2,080	2.90%	$1,867

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period's yields are presented on a basis consistent with the current period presentation.
(2) Yields are weighted for ten months of income and assets related to the Star and Edison Businesses.

The decrease in yield on the Japanese insurance portfolio for 2011 compared to 2010 is primarily attributable to lower fixed maturity reinvestment rates in both the U.S. and Japan, and the impact from the acquisition of the Star and Edison portfolios.

The decrease in yield on the Japanese insurance portfolio for 2010 compared to 2009 is primarily attributable to lower fixed maturity reinvestment rates and a lower interest rate environment both in the U.S. and Japan, as well as less favorable results in joint ventures and limited partnerships.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts for the years ended December 31, 2011 and 2010, was approximately $24.2 billion and $12.3 billion, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts for the years ended December 31, 2011 and 2010, was approximately $4.8 billion and $1.2 billion, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars.

For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, "—Results of Operations for Financial Services Businesses by Segment—International Insurance Division."

Fixed Maturity Securities

Investment Mix

Our fixed maturity securities portfolio consists of publicly-traded and privately-placed debt securities across an array of industry categories. The fixed maturity securities relating to our international insurance operations are primarily comprised of foreign government securities.

We manage our public portfolio to a risk profile directed or overseen by the Asset Liability Management and Risk Management groups and to a profile that also reflects the local market environments impacting both our domestic and international insurance portfolios. The investment objectives for fixed maturity securities are consistent with those described above. The total return that we earn on the portfolio will be reflected both as investment income and also as realized gains or losses on investments.

We use our private placement and asset-backed portfolios to enhance the diversification and yield of our overall fixed maturity portfolio. Within our domestic portfolios, we maintain a private fixed income portfolio that is larger than the industry average as a percentage of total fixed income holdings. Over the last several years, our investment staff has originated the majority of our annual private placement originations through direct borrower relationships. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

Fixed Maturity Securities by Contractual Maturity Date

The following table sets forth the breakdown of the amortized cost of our fixed maturity securities portfolio in total by contractual maturity as of December 31, 2011.

	December 31, 2011			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
Corporate & government securities:				
Maturing in 2012	$ 6,229	3.1%	$ 2,028	4.8%
Maturing in 2013	10,676	5.3	2,577	6.0
Maturing in 2014	10,751	5.4	1,513	3.6
Maturing in 2015	9,045	4.5	1,584	3.7
Maturing in 2016	9,458	4.7	1,758	4.1
Maturing in 2017	9,323	4.6	1,610	3.8
Maturing in 2018	9,311	4.6	2,083	4.9
Maturing in 2019	9,947	5.0	1,462	3.4
Maturing in 2020	9,580	4.8	1,445	3.3
Maturing in 2021	8,606	4.3	2,007	4.7
Maturing in 2022	4,421	2.2	953	2.2
Maturing in 2023 and beyond	79,453	39.4	13,246	31.1
Total corporate & government securities	176,800	87.9	32,266	75.6
Asset-backed securities	8,319	4.2	4,935	11.6
Commercial mortgage-backed securities	8,197	4.1	3,559	8.4
Residential mortgage-backed securities	7,569	3.8	1,880	4.4
Total fixed maturities	$200,885	100.0%	$42,640	100.0%

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Financial Services Businesses as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities—Financial Services Businesses

	December 31, 2011				December 31, 2010			
Industry(1)	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
Corporate securities:								
Manufacturing	$ 28,091	$ 2,412	$ 715	$ 29,788	$ 21,590	$1,538	$ 539	$ 22,589
Utilities	14,356	1,454	517	15,293	11,153	851	179	11,825
Finance	20,245	494	766	19,973	11,213	385	331	11,267
Services	12,134	861	406	12,589	10,170	612	333	10,449
Energy	7,304	564	208	7,660	5,356	364	168	5,552
Retail and Wholesale	5,256	382	131	5,507	4,110	214	138	4,186
Transportation	5,078	368	76	5,370	3,625	240	62	3,803
Other	1,551	57	64	1,544	1,359	62	62	1,359
Total corporate securities	94,015	6,592	2,883	97,724	68,576	4,266	1,812	71,030
Foreign government(3)	73,209	4,796	204	77,801	48,016	2,915	86	50,845
Residential mortgage-backed	7,569	425	59	7,935	7,504	397	51	7,850
Asset-backed securities(4)	8,319	150	988	7,481	8,790	168	969	7,989
Commercial mortgage-backed	8,197	573	104	8,666	8,142	592	63	8,671
U.S. Government	7,592	1,920	17	9,495	4,807	464	67	5,204
State & Municipal(5)	1,984	293	1	2,276	1,601	24	52	1,573
Total(6)(7)	$200,885	$14,749	$4,256	$211,378	$147,436	$8,826	$3,100	$153,162

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes $345 million of gross unrealized gains and $98 million of gross unrealized losses as of December 31, 2011, compared to $319 million of gross unrealized gains and $68 million of gross unrealized losses as of December 31, 2010 on securities classified as held-to-maturity.
(3) As of December 31, 2011 and 2010, based on amortized cost, 84% and 83%, respectively, represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 6% and 8%, respectively of the balance.
(4) Includes securities collateralized by sub-prime mortgages. See "—Asset-Backed Securities" below.
(5) Includes securities related to the Build America Bonds program.

(6) Excluded from the above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see "—Invested Assets of Other Entities and Operations" below.
(7) The table above excludes fixed maturity securities classified as trading. See "—Trading Account Assets Supporting Insurance Liabilities" and "—Other Trading Account Assets" for additional information.

The change in net unrealized gains and losses from December 31, 2010 to December 31, 2011, was primarily due to a decrease in interest rates in both the U.S. and Japan.

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Closed Block Business as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities—Closed Block Business

	December 31, 2011				December 31, 2010			
Industry(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Corporate securities:								
Manufacturing	$ 8,325	$1,167	$ 40	$ 9,452	$ 7,940	$ 754	$ 66	$ 8,628
Utilities	5,630	907	55	6,482	5,566	510	42	6,034
Services	4,731	578	35	5,274	4,562	377	35	4,904
Finance	3,088	151	74	3,165	2,723	125	53	2,795
Energy	1,806	259	4	2,061	1,887	184	6	2,065
Retail and Wholesale	1,525	255	8	1,772	1,641	166	21	1,786
Transportation	1,347	153	13	1,487	1,349	102	19	1,432
Other	49	13	0	62	29	2	0	31
Total corporate securities	26,501	3,483	229	29,755	25,697	2,220	242	27,675
Asset-backed securities(2)	4,935	56	819	4,172	4,570	60	701	3,929
Commercial mortgage-backed	3,559	158	2	3,715	3,615	170	6	3,779
U.S. Government	4,594	943	0	5,537	6,066	197	228	6,035
Residential mortgage-backed	1,880	125	19	1,986	2,311	129	15	2,425
Foreign government(3)	492	86	5	573	596	90	9	677
State & Municipal	679	100	1	778	651	19	13	657
Total(4)	$42,640	$4,951	$1,075	$46,516	$43,506	$2,885	$1,214	$45,177

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes securities collateralized by sub-prime mortgages. See "—Asset-Backed Securities" below.
(3) As of both December 31, 2011 and 2010, based on amortized cost, no individual foreign country represented more than 8% of the balance.
(4) The table above excludes fixed maturity securities classified as trading. See "—Other Trading Account Assets" for additional information.

The change in net unrealized gains and losses from December 31, 2010 to December 31, 2011, was primarily due to a decrease in interest rates.

Asset-Backed Securities

Included within asset-backed securities attributable to the Financial Services Businesses are securities collateralized by sub-prime mortgages. While there is no market standard definition, we define sub-prime mortgages as residential mortgages that are originated to weaker quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios, or limited documentation. The significant deterioration of the U.S. housing market, high interest rate resets, higher unemployment levels, and relaxed underwriting standards for some originators of sub-prime mortgages have led to higher delinquency rates, particularly for those mortgages issued in 2006 and 2007. Recently there has been significant attention given to potential deficiencies in lenders' foreclosure documentation, causing delays in the foreclosure process. Many lenders have indicated that the issues are administrative and they do not expect significant delays in their foreclosure proceedings. From the perspective of an investor in securities backed by sub-prime collateral, any significant delays in foreclosure proceedings could result in increased servicing costs which could negatively affect the value of the impacted securities. Separately, as an investor in sub-prime securities, we are evaluating our legal options with respect to potential remedies arising from any potential deficiencies related to the original lending and securitization practices. The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost—Financial Services Businesses

Vintage	December 31, 2011 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2010
	(in millions)						
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2011—2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	5	272	277	338
2006	0	2	2	13	220	237	424
2005	0	0	0	0	7	7	9
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	0	2	2	18	499	521	771
All other portfolios:							
2011—2008	0	0	0	0	0	0	0
2007	2	0	0	0	218	220	266
2006	9	63	36	12	662	782	1,066
2005	0	13	25	39	259	336	436
2004 & Prior	19	29	65	55	607	775	885
Total all other portfolios	30	105	126	106	1,746	2,113	2,653
Total collateralized by sub-prime mortgages(2)	30	107	128	124	2,245	2,634	3,424
Other asset-backed securities:							
Externally-managed investments in the European market	0	0	0	452	0	452	588
Collateralized by auto loans	839	0	0	2	0	841	931
Collateralized by credit cards	488	0	8	265	0	761	1,014
Collateralized by non-sub-prime mortgages	1,547	110	4	31	15	1,707	1,373
Other asset-backed securities(3)	701	935	165	45	78	1,924	1,460
Total asset-backed securities(4)	$3,605	$1,152	$305	$919	$2,338	$8,319	$8,790

(1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, commercial paper issuances and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.

(2) Included within the $2.6 billion of asset-backed securities collateralized by sub-prime mortgages as of December 31, 2011 are $60 million of securities collateralized by second-lien exposures.

(3) As of December 31, 2011, includes collateralized debt obligations with amortized cost of $115 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by education loans, equipment leases, franchises, timeshares, and aircraft.

(4) Excluded from the tables above are asset-backed securities held outside the general account in other entities and operations. For additional information regarding asset-backed securities held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excluded from the table above are asset-backed securities classified as trading and carried at fair value. See "—Trading Account Assets Supporting Insurance Liabilities" and "—Other Trading Account Assets" for additional information regarding these securities.

Asset-Backed Securities at Fair Value—Financial Services Businesses

Vintage	December 31, 2011 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2010
	(in millions)						
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2011—2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	5	179	184	255
2006	0	2	2	13	153	170	360
2005	0	0	0	0	6	6	8
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	0	2	2	18	338	360	623
All other portfolios:							
2011—2008	0	0	0	0	0	0	0
2007	2	0	0	0	97	99	158
2006	7	52	20	11	404	494	764
2005	0	12	22	26	172	232	338
2004 & Prior	16	25	52	40	413	546	671
Total all other portfolios	25	89	94	77	1,086	1,371	1,931
Total collateralized by sub-prime mortgages	25	91	96	95	1,424	1,731	2,554
Other asset-backed securities:							
Externally-managed investments in the European market	0	0	0	471	0	471	619
Collateralized by auto loans	840	0	0	2	0	842	933
Collateralized by credit cards	512	0	8	263	0	783	1,039
Collateralized by non-sub-prime mortgages	1,616	113	4	29	14	1,776	1,421
Other asset-backed securities(2)	701	913	142	48	74	1,878	1,423
Total asset-backed securities(3)	$3,694	$1,117	$250	$908	$1,512	$7,481	$7,989

(1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, commercial paper issuances and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
(2) As of December 31, 2011, includes collateralized debt obligations with fair value of $112 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by education loans, equipment leases, franchises, timeshares, and aircraft.
(3) Excluded from the tables above are asset-backed securities held outside the general account in other entities and operations. For additional information regarding asset-backed securities held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excluded from the table above are asset-backed securities classified as trading and carried at fair value. See "—Trading Account Assets Supporting Insurance Liabilities" and "—Other Trading Account Assets" for additional information regarding these securities.

The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2011, including Standard & Poor's, Moody's and Fitch. In making our investment decisions, rather than relying solely on the rating agencies' evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit's independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses decreased from $3.424 billion as of December 31, 2010, to $2.634 billion as of December 31, 2011, primarily reflecting sales, principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses were $906 million as of December 31, 2011, and $882 million as of December 31, 2010. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see "—Realized Investment Gains and Losses" above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

The weighted average estimated subordination percentage of our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses, excluding those supported by guarantees from monoline bond insurers, was 30% as of December 31, 2011. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of December 31, 2011, based on amortized cost, approximately 63% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 41% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the $2.634 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses as of December 31, 2011 were $549 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

Included within asset-backed securities attributable to the Closed Block Business are securities collateralized by sub-prime mortgages, as defined above. The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost—Closed Block Business

	December 31, 2011						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2010
				(in millions)			
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2011—2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	2	0	0	5	202	209	258
2006	0	3	3	16	192	214	390
2005	0	1	0	0	8	9	12
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	2	4	3	21	402	432	660
All other portfolios:							
2011—2008	0	0	0	0	0	0	0
2007	5	0	20	7	190	222	256
2006	95	0	0	0	685	780	868
2005	10	51	83	12	131	287	343
2004 & Prior	2	37	63	79	388	569	630
Total all other portfolios	112	88	166	98	1,394	1,858	2,097
Total collateralized by sub-prime mortgages(2)	114	92	169	119	1,796	2,290	2,757
Other asset-backed securities:							
Collateralized by credit cards	432	0	36	189	2	659	642
Collateralized by auto loans	739	0	0	0	0	739	396
Externally-managed investments in the European market	0	0	0	199	0	199	212
Collateralized by education loans	196	289	0	0	0	485	201
Other asset-backed securities(3)	268	207	54	3	31	563	362
Total asset-backed securities	$1,749	$588	$259	$510	$1,829	$4,935	$4,570

(1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
(2) Included within the $2.3 billion of asset-backed securities collateralized by sub-prime mortgages as of December 31, 2011 are $7 million of securities collateralized by second-lien exposures.
(3) As of December 31, 2011, includes collateralized debt obligations with amortized cost of $50 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by franchises, timeshares, manufacturing and aircraft.
(4) Excluded from the table above are asset-backed securities classified as trading and carried at fair value. For additional information see "—Other Trading Account Assets."

Asset-Backed Securities at Fair Value—Closed Block Business

	December 31, 2011						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2010
	(in millions)						
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2011—2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	2	0	0	5	141	148	202
2006	0	3	3	15	139	160	339
2005	0	1	0	0	6	7	10
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	2	4	3	20	286	315	551
All other portfolios:							
2011—2008	0	0	0	0	0	0	0
2007	5	0	15	5	94	119	169
2006	81	0	0	0	356	437	585
2005	8	46	64	11	80	209	276
2004 & Prior	2	30	48	60	281	421	509
Total all other portfolios	96	76	127	76	811	1,186	1,539
Total collateralized by sub-prime mortgages	98	80	130	96	1,097	1,501	2,090
Other asset-backed securities:							
Collateralized by credit cards	442	0	36	189	2	669	649
Collateralized by auto loans	739	0	0	0	0	739	397
Externally-managed investments in the European market	0	0	0	233	0	233	243
Collateralized by education loans	196	278	0	0	0	474	196
Other asset-backed securities(2)	268	206	55	2	25	556	354
Total asset-backed securities(3)	$1,743	$564	$221	$520	$1,124	$4,172	$3,929

(1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
(2) As of December 31, 2011, includes collateralized debt obligations with fair value of $50 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by franchises, timeshares, manufacturing and aircraft.
(3) Excluded from the table above are asset-backed securities classified as trading and carried at fair value. For additional information see "—Other Trading Account Assets."

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business decreased from $2.757 billion as of December 31, 2010 to $2.290 billion as of December 31, 2011, primarily reflecting sales, principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business were $789 million as of December 31, 2011 and $673 million as of December 31, 2010. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see "—Realized Investment Gains and Losses" above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

The weighted average estimated subordination percentage of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business, excluding those supported by guarantees from monoline bond insurers, was 31% as of December 31, 2011. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of December 31, 2011, based on amortized cost, approximately 67% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 43% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the $2.290 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business as of December 31, 2011, were $545 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

Residential Mortgage-Backed Securities

The following tables set forth the amortized cost of our residential mortgage-backed securities attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

Residential Mortgage-Backed Securities at Amortized Cost

	December 31, 2011			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$7,339	97.0%	$1,664	88.5%
Collateralized mortgage obligations(2)(3)	230	3.0	216	11.5
Total residential mortgage-backed securities	$7,569	100.0%	$1,880	100.0%
Portion rated AAA(4)	$1,890	25.0%	$ 0	0.0%
Portion rated AA(4)	$5,599	74.0%	$1,664	88.5%

	December 31, 2010			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$7,442	99.2%	$2,055	88.9%
Collateralized mortgage obligations(2)(3)	62	0.8	256	11.1
Total residential mortgage-backed securities	$7,504	100.0%	$2,311	100.0%
Portion rated AAA(4)	$7,413	98.8%	$2,074	89.7%
Portion rated AA(4)	$ 43	0.6%	$ 44	1.9%

(1) As of December 31, 2011, of these securities, for the Financial Services Businesses, $5.408 billion are supported by U.S. government and $1.931 billion are supported by foreign governments. As of December 31, 2010, of these securities, for the Financial Services Businesses, $5.954 billion were supported by the U.S. government and $1.488 billion were supported by foreign governments. For the Closed Block Business all of these securities are supported by the U.S. government as of December 31, 2011 and 2010.

(2) Includes alternative residential mortgage loans of $38 million and $46 million in the Financial Services Businesses, and $93 million and $108 million in the Closed Block Business, for 2011 and 2010, respectively.

(3) As of December 31, 2011, of these collateralized mortgage obligations, for the Financial Services Businesses, 68% have credit ratings of A or above, 7% have BBB credit ratings and the remaining 25% have below investment grade ratings, and as of December 31, 2010, 38% have credit ratings of A or above, 7% have BBB credit ratings and the remaining 55% have below investment grade ratings. As of December 31, 2011, for the Closed Block Business, 16% have A credit ratings or above, 34% have BBB credit ratings, and 50% have below investment grade ratings, and as of December 31, 2010, 39% have A credit ratings or above, 35% have BBB credit ratings, and 26% have below investment grade ratings.

(4) Based on lowest external rating agency rating. In August 2011, S&P downgraded U.S. debt securities from AAA to AA+.

Commercial Mortgage-Backed Securities

The commercial real estate market was severely impacted by the financial crisis and the subsequent recession. However, market fundamentals appear to have bottomed and are showing signs of improvement since late 2010. Commercial real estate vacancy rates have declined from their peak, rent growth has turned positive for certain sectors, and prices of commercial real estate appear to be stabilizing and improving in some sectors. Additionally, the elevated delinquency rate on mortgages in the commercial mortgage-backed securities market is slowing and refinancing activity has increased, at least partially reflecting the improvement in these fundamentals. The loans included in new issues seem to reflect better underwriting and lower levels of leverage compared to 2007.

Although there are some positive signs in commercial real estate, there are still some significant challenges for this market, including numerous future loan workouts, a large wave of refinancings for over-leveraged properties and numerous legislative changes. To ensure our investment objectives and asset strategies are maintained, we consider these market factors in making our investment decisions on commercial mortgage-backed securities.

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost—Financial Services Businesses

Vintage	December 31, 2011						
	Lowest Rating Agency Rating(1)						
	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2010
	(in millions)						
2011	$ 0	$ 5	$ 0	$ 0	$ 0	$ 5	$ 0
2010	0	99	0	0	0	99	89
2009	0	117	0	0	0	117	117
2008	170	0	3	17	7	197	263
2007	1,798	34	49	0	6	1,887	1,970
2006	2,582	310	63	0	0	2,955	3,307
2005	1,660	90	54	0	0	1,804	1,643
2004 & Prior	842	175	85	20	11	1,133	753
Total commercial mortgage-backed securities(2)(3)(4)	$7,052	$830	$254	$37	$24	$8,197	$8,142

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2011, including Standard & Poor's, Moody's, Fitch and Realpoint.
(2) Excluded from the table above are available-for-sale commercial mortgage-backed securities held outside the general account in other entities and operations. For additional information regarding commercial mortgage-backed securities held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excluded from the table above are commercial mortgage-backed securities classified as trading and carried at fair value. See "—Trading Account Assets Supporting Insurance Liabilities" for additional information regarding these securities.
(3) Included in the table above as of December 31, 2011 are downgraded super senior securities with amortized cost of $408 million in AA and $144 million in A.
(4) Included in the table above as of December 31, 2011 are agency commercial mortgage-backed securities with amortized cost of $256 million all rated AA.

Commercial Mortgage-Backed Securities at Fair Value—Financial Services Businesses

Vintage	December 31, 2011						
	Lowest Rating Agency Rating(1)						
	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2010
	(in millions)						
2011	$ 0	$ 5	$ 0	$ 0	$ 0	$ 5	$ 0
2010	0	108	0	0	0	108	90
2009	0	128	0	0	0	128	118
2008	180	0	4	16	6	206	262
2007	1,852	38	46	0	22	1,958	2,070
2006	2,804	341	69	0	0	3,214	3,567
2005	1,799	80	51	0	0	1,930	1,785
2004 & Prior	844	167	80	17	9	1,117	779
Total commercial mortgage-backed securities(2)	$7,479	$867	$250	$33	$37	$8,666	$8,671

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2011, including Standard & Poor's, Moody's, Fitch and Realpoint.
(2) Excluded from the table above are available-for-sale commercial mortgage-backed securities held outside the general account in other entities and operations. For additional information regarding commercial mortgage-backed securities held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excluded from the table above are commercial mortgage-backed securities classified as trading and carried at fair value. See "—Trading Account Assets Supporting Insurance Liabilities" for additional information regarding these securities.

Included in the table above are commercial mortgage-backed securities collateralized by non-U.S. properties all related to Japanese commercial mortgage-backed securities held by our Japanese insurance operations with an amortized cost of $13 million in AAA, $4 million in A, $17 million in BBB and $13 million in BB and below as of December 31, 2011, and $12 million in AAA, $3 million in A, $18 million in BBB and $104 million in BB and below as of December 31, 2010.

Included in the table above are commercial mortgage-backed securities collateralized by U.S. properties all related to commercial mortgage-backed securities held by the acquired Edison business with an amortized cost of $441 million in AAA, $184 million in AA, $122 million in A and $5 million in BBB as of December 31, 2011.

The weighted average estimated subordination percentage of our commercial mortgage-backed securities attributable to the Financial Services Businesses was 32% as of December 31, 2011. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. The weighted average estimated subordination percentage includes an adjustment for that portion of the capital structure, which has been effectively defeased by U.S. Treasury securities. As of December 31, 2011, based on amortized cost, approximately 95% of the commercial mortgage-backed securities attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 76% have estimated credit subordination percentages of 30% or more. The following tables set forth the weighted average estimated subordination percentage, adjusted for that portion of the capital structure which has been effectively defeased by U.S. Treasury securities, of our commercial mortgage-backed securities collateralized by U.S. and Non-U.S. properties, attributable to the Financial Services Businesses based on amortized cost as of December 31, 2011, by rating and vintage.

U.S. Commercial Mortgage-Backed Securities—Subordination Percentages by Rating and Vintage—Financial Services Businesses

	December 31, 2011				
	Lowest Rating Agency Rating(1)(2)				
Vintage	AAA	AA	A	BBB	BB and below
2011			17%		
2010					
2009					
2008	31%				
2007	30%		31%		
2006	33%	34%	32%		
2005	33%	16%	26%		
2004 & Prior	31%	26%	31%	19%	27%

Non- U.S. Commercial Mortgage-Backed Securities—Subordination Percentages by Rating and Vintage—Financial Services Businesses

	December 31, 2011				
	Lowest Rating Agency Rating(1)(2)				
Vintage	AAA	AA	A	BBB	BB and below
2011					
2010					
2009					
2008			42%	32%	57%
2007					22%
2006	65%				
2005					11%
2004 & Prior					

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2011, including Standard & Poor's, Moody's, Fitch, and Realpoint.
(2) Excludes agency commercial mortgage-backed securities.

The super senior structure was introduced to the U.S. commercial mortgage-backed securities market in late 2004 and was modified in early 2005 to increase subordination from 20% to 30%. With the changes to the commercial mortgage-backed securities structure in 2005, there became three distinct AAA classes for commercial mortgage-backed securities with fixed-rate terms, (1) super senior AAA with 30% subordination, (2) mezzanine AAA with 20% subordination and (3) junior AAA with approximately 14% subordination. The super senior class has priority over the mezzanine and junior classes to all principal cash flows (repayments, prepayments and recoveries on defaulted loans). As a result, all super senior bonds must be completely repaid before the mezzanine or junior bonds receive any principal cash flows. In addition, the super senior bonds will not experience any loss of principal until both the entire mezzanine and junior bonds are written-down to zero. We believe the importance of this additional credit enhancement afforded to the super senior class over the mezzanine and junior classes is limited in a benign commercial real estate cycle with low defaults but becomes more significant in a deep commercial real estate downturn under which expected losses increase substantially.

In addition to enhanced subordination, certain securities within the super senior class benefit from the prioritization of principal cash flows. The super senior class is generally structured such that shorter duration time tranches have priority over longer duration time tranches as to all principal cash flows (repayments, prepayments, and recoveries on defaulted loans) until the deal reaches 30% cumulative net loss, at which point all super senior securities are paid pro rata. As a result, short of reaching 30% cumulative net losses, the "shorter duration super senior" tranches must be completely repaid before the "longest duration super senior" tranche receives any principal cash flows. We have generally focused our purchases of recent vintage commercial mortgage-backed securities on "shorter duration super senior" tranches that we believe have sufficient priority to ensure that in most scenarios our positions will be fully repaid prior to the structure reaching the 30% cumulative net loss threshold. The following table sets forth the amortized cost of our AAA commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated, by type and by year of issuance (vintage).

AAA Rated Commercial Mortgage-Backed Securities—Amortized Cost by Type and Vintage—Financial Services Businesses

	December 31, 2011							
	Super Senior AAA Structures				Other AAA			
Vintage	Super Senior (shorter duration tranches)	Super Senior (longest duration tranches)	Mezzanine	Junior	Other Senior	Other Subordinate	Other	Total AAA Securities at Amortized Cost
	(in millions)							
2010	$ 0	$ 0	$0	$ 0	$ 0	$ 0	$ 0	$ 0
2009	0	0	0	0	0	0	0	0
2008	169	0	0	0	0	0	0	169
2007	1,798	0	0	0	0	0	0	1,798
2006	1,391	1,178	0	0	0	1	12	2,582
2005	553	1,082	0	16	0	5	5	1,661
2004 & Prior	30	157	0	63	410	179	3	842
Total	$3,941	$2,417	$0	$79	$410	$185	$20	$7,052

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost—Closed Block Business

	December 31, 2011						
	Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2010
	(in millions)						
2011	$ 53	$ 0	$ 0	$0	$0	$ 53	$ 0
2010	0	5	0	0	0	5	5
2009	0	0	0	0	0	0	0
2008	3	0	0	0	0	3	9
2007	799	0	28	0	4	831	705
2006	852	70	11	0	0	933	873
2005	1,282	0	25	0	0	1,307	1,219
2004 & Prior	368	34	16	6	3	427	804
Total commercial mortgage-backed securities(2)(3)	$3,357	$109	$80	$6	$7	$3,559	$3,615

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2011, including Standard & Poor's, Moody's, Fitch, and Realpoint.
(2) Included in the table above as of December 31, 2011 are downgraded super senior securities with amortized cost of $73 million in AA and $64 million in A.
(3) Included in the table above as of December 31, 2011 are agency commercial mortgage-backed securities with amortized cost of $5 million all rated AA.

Commercial Mortgage-Backed Securities at Fair Value—Closed Block Business

	December 31, 2011						
	Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2010
	(in millions)						
2011	$ 57	$ 0	$ 0	$0	$ 0	$ 57	$ 0
2010	0	5	0	0	0	5	5
2009	0	0	0	0	0	0	0
2008	4	0	0	0	0	4	10
2007	818	0	29	0	13	860	731
2006	896	78	12	0	0	986	923
2005	1,338	0	27	0	0	1,365	1,277
2004 & Prior	379	34	16	6	3	438	833
Total commercial mortgage-backed securities	$3,492	$117	$84	$6	$16	$3,715	$3,779

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2011, including Standard & Poor's, Moody's, Fitch, and Realpoint.

The weighted average estimated subordination percentage of commercial mortgage-backed securities attributable to the Closed Block Business was 32% as of December 31, 2011. See above for a definition of this percentage. As of December 31, 2011, based on amortized cost, approximately 96% of the commercial mortgage-backed securities attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 73% have estimated credit subordination percentages of 30% or more. The following tables set forth the weighted average estimated subordination percentage, adjusted for that portion of the capital structure which has been effectively defeased by U.S. Treasury securities, of our commercial mortgage-backed securities attributable to the Closed Block Business based on amortized cost as of December 31, 2011, by rating and vintage.

Commercial Mortgage-Backed Securities—Subordination Percentages by Rating and Vintage—Closed Block Business

	December 31, 2011				
	Lowest Rating Agency Rating				
Vintage	AAA	AA	A	BBB	BB and below
2011	20%				
2010					
2009					
2008	31%				
2007	30%		30%		7%
2006	32%	34%	33%		
2005	33%		32%		
2004 & Prior	35%	34%	61%	71%	69%

As discussed above, with the changes to the commercial mortgage-backed securities market in late 2004 and early 2005, there are now three distinct AAA classes for commercial mortgage-backed securities with fixed rate terms, (1) super senior AAA with 30% subordination, (2) mezzanine AAA with 20% subordination and (3) junior AAA with approximately 14% subordination. In addition to the enhanced subordination, certain securities within the super senior class benefit from the prioritization of principal cash flows. The following table sets forth the amortized cost our AAA commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by type and by year of issuance (vintage).

AAA Rated Commercial Mortgage-Backed Securities—Amortized Cost by Type and Vintage—Closed Block Business

	December 31, 2011							
	Super Senior AAA Structures				Other AAA			
Vintage	Super Senior (shorter duration tranches)	Super Senior (longest duration tranches)	Mezzanine	Junior	Other Senior	Other Subordinate	Other	Total AAA Securities at Amortized Cost
				(in millions)				
2011	$ 12	$ 0	$0	$0	$ 41	$ 0	$ 0	$ 53
2010	0	0	0	0	0	0	0	0
2009	0	0	0	0	0	0	0	0
2008	3	0	0	0	0	0	0	3
2007	799	0	0	0	0	0	0	799
2006	617	225	0	0	0	0	10	852
2005	824	458	0	0	0	0	0	1,282
2004 & Prior	40	11	0	0	255	62	0	368
Total	$2,295	$694	$0	$0	$296	$62	$10	$3,357

Fixed Maturity Securities Credit Quality

The Securities Valuation Office, or SVO, of the NAIC, evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called "NAIC Designations." In general, NAIC Designations of "1" highest quality, or "2" high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody's or BBB- or higher by Standard & Poor's. NAIC Designations of "3" through "6" generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody's and BB+ or lower by Standard & Poor's. However, in the fourth quarter of 2009 the NAIC adopted rules which changed the methodology for determining the NAIC Designations for non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages. Under these rules, rather than being based on the rating of a third party rating agency, as of December 31, 2009 the NAIC Designations for such securities are based on security level expected losses as modeled by an independent third party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized. The modeled results used in determining NAIC Designations as of December 31, 2009 were updated and utilized for reporting as of December 31, 2010. In the fourth quarter of 2010, the NAIC adopted rules which changed the methodology for determining the NAIC Designations for commercial mortgage-backed securities, similar to what was done in the fourth quarter of 2009 for residential mortgage-backed securities. Both methodologies remained unchanged and were utilized for December 31, 2011.

As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency, an agency of the Japanese government. The Financial Services Agency has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the Financial Services Agency's credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody's, Standard & Poor's, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The amortized cost of our public and private fixed maturities attributable to the Financial Services Businesses considered other than high or highest quality based on NAIC or equivalent rating totaled $9.3 billion, or 5%, of the total fixed maturities as of December 31, 2011 and $8.7 billion, or 6%, of the total fixed maturities as of December 31, 2010. Fixed maturities considered other than high or highest quality based on NAIC or equivalent rating represented 30% and 27% of the gross unrealized losses attributable to the Financial Services Businesses as of December 31, 2011 and 2010, respectively. As of December 31, 2011, the amortized cost of our public and private below investment grade fixed maturities attributable to the Financial Services Businesses, based on the lowest of external rating agency ratings, totaled $10.9 billion, or 5%, of the total fixed maturities, and includes securities considered high or highest quality by the NAIC based on the new rules for residential mortgage-backed securities described above.

The amortized cost of our public and private fixed maturities attributable to the Closed Block Business considered other than high or highest quality based on NAIC or equivalent rating totaled $4.4 billion, or 10%, of the total fixed maturities as of December 31, 2011 and $5.6 billion, or 13%, of the total fixed maturities as of December 31, 2010. Fixed maturities considered other than high or highest quality based on NAIC or equivalent rating represented 51% of the gross unrealized losses attributable to the Closed Block Business as of December 31, 2011, and 44% as of December 31, 2010. As of December 31, 2011, the amortized cost of our public and private below investment grade fixed maturities attributable to the Closed Block Business, based on the lowest of external rating agency ratings, totaled $5.5 billion, or 13%, of the total fixed maturities, and includes securities considered high or highest quality by the NAIC based on the new rules for residential mortgage-backed securities described above.

Public Fixed Maturities—Credit Quality

The following table sets forth our public fixed maturity portfolios by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

Public Fixed Maturity Securities—Financial Services Businesses

(1)(2)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
				(in millions)				
1	$151,700	$11,143	$1,756	$161,087	$105,068	$6,278	$1,240	$110,106
2	17,017	1,298	797	17,518	14,129	892	585	14,436
Subtotal High or Highest Quality Securities	168,717	12,441	2,553	178,605	119,197	7,170	1,825	124,542
3	3,446	66	574	2,938	2,753	100	208	2,645
4	1,328	34	296	1,066	1,067	24	206	885
5	443	6	174	275	630	21	211	440
6	219	15	105	129	271	28	89	210
Subtotal Other Securities(4)	5,436	121	1,149	4,408	4,721	173	714	4,180
Total Public Fixed Maturities	$174,153	$12,562	$3,702	$183,013	$123,918	$7,343	$2,539	$128,722

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of December 31, 2011 and 2010, 10 securities with amortized cost of $2 million (fair value, $12 million) and 17 securities with amortized cost of $11 million (fair value, $20 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $282 million of gross unrealized gains and $97 million gross unrealized losses as of December 31, 2011, compared to $272 million of gross unrealized gains and $67 million of gross unrealized losses as of December 31, 2010 on securities classified as held-to-maturity.
(4) On amortized cost basis, as of December 31, 2011 includes $185 million in emerging markets securities and $70 million in securitized bank loans.

The following table sets forth our public fixed maturity portfolios by NAIC designation attributable to the Closed Block Business as of the dates indicated.

Public Fixed Maturity Securities—Closed Block Business

(1)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
1	$21,098	$2,424	$ 381	$23,141	$21,965	$1,075	$ 551	$22,489
2	4,638	629	134	5,133	4,842	423	88	5,177
Subtotal High or Highest Quality Securities	25,736	3,053	515	28,274	26,807	1,498	639	27,666
3	1,103	59	82	1,080	1,547	73	77	1,543
4	808	14	245	577	1,031	27	201	857
5	369	5	156	218	527	17	176	368
6	66	10	14	62	58	20	13	65
Subtotal Other Securities(2)	2,346	88	497	1,937	3,163	137	467	2,833
Total Public Fixed Maturities	$28,082	$3,141	$1,012	$30,211	$29,970	$1,635	$1,106	$30,499

(1) Includes, as of December 31, 2011 and 2010, 11 securities with amortized cost of $11 million (fair value, $13 million) and 15 securities with amortized cost of $9 million (fair value, $10 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(2) On an amortized cost basis, as of December 31, 2011, includes $290 million in securitized bank loans and $182 million in emerging markets securities.

Private Fixed Maturities—Credit Quality

The following table sets forth our private fixed maturity portfolios by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

Private Fixed Maturity Securities—Financial Services Businesses

(1)(2)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
				(in millions)				
1	$ 7,018	$ 730	$ 84	$ 7,664	$ 6,226	$ 511	$ 90	$ 6,647
2	15,847	1,273	362	16,758	13,264	792	341	13,715
Subtotal High or Highest Quality Securities	22,865	2,003	446	24,422	19,490	1,303	431	20,362
3	2,532	134	43	2,623	2,467	104	63	2,508
4	715	14	20	709	948	26	44	930
5	490	5	42	453	518	21	17	522
6	130	31	3	158	95	29	6	118
Subtotal Other Securities(4)	3,867	184	108	3,943	4,028	180	130	4,078
Total Private Fixed Maturities	$26,732	$2,187	$554	$28,365	$23,518	$1,483	$561	$24,440

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of December 31, 2011 and 2010, 100 securities with amortized cost of $815 million (fair value, $840 million) and 160 securities with amortized cost of $1,776 million (fair value, $1,800 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $63 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2011, compared to $47 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2010 on securities classified as held-to-maturity.
(4) On an amortized cost basis, as December 31, 2011 includes $419 million in securitized bank loans and $244 million in commercial asset finance securities.

The following table sets forth our private fixed maturity portfolios by NAIC designation attributable to the Closed Block Business as of the dates indicated.

Private Fixed Maturity Securities—Closed Block Business

(1)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
1	$ 3,651	$ 660	$ 0	$ 4,311	$ 3,702	$ 447	$ 11	$ 4,138
2	8,861	1,069	16	9,914	7,386	711	35	8,062
Subtotal High or Highest Quality Securities	12,512	1,729	16	14,225	11,088	1,158	46	12,200
3	1,061	66	10	1,117	1,292	67	21	1,338
4	618	11	16	613	803	12	23	792
5	215	1	18	198	307	6	16	297
6	152	3	3	152	46	7	2	51
Subtotal Other Securities(2)	2,046	81	47	2,080	2,448	92	62	2,478
Total Private Fixed Maturities	$14,558	$1,810	$63	$16,305	$13,536	$1,250	$108	$14,678

(1) Includes, as of December 31, 2011 and 2010, 56 securities with amortized cost of $926 million (fair value, $968 million) and 103 securities with amortized cost of $1,523 million (fair value, $1,506 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(2) On an amortized cost basis, as of December 31, 2011, includes $290 million in securitized bank loans and $272 million in commercial asset finance securities.

Corporate Securities—Credit Quality

The following table sets forth both our public and private corporate securities by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

Corporate Securities—Financial Services Businesses

(1)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
1	$55,051	$3,850	$1,170	$57,731	$36,486	$2,413	$ 645	$38,254
2	31,355	2,487	1,072	32,770	25,678	1,598	844	26,432
Subtotal High or Highest Quality Securities	86,406	6,337	2,242	90,501	62,164	4,011	1,489	64,686
3	5,379	185	469	5,095	4,253	150	191	4,212
4	1,469	26	109	1,386	1,483	33	99	1,417
5	585	9	51	543	546	33	22	557
6	176	35	12	199	130	39	11	158
Subtotal Other Securities	7,609	255	641	7,223	6,412	255	323	6,344
Total Corporate Fixed Maturities	$94,015	$6,592	$2,883	$97,724	$68,576	$4,266	$1,812	$71,030

(1) Reflects equivalent ratings for investments of the international insurance operations.

The following table sets forth our corporate securities by NAIC designation attributable to the Closed Block Business as of the dates indicated.

Corporate Securities—Closed Block Business

	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
1	$10,528	$1,714	$ 62	$12,180	$10,064	$ 951	$ 65	$10,950
2	12,773	1,631	67	14,337	11,505	1,080	65	12,520
Subtotal High or Highest Quality Securities	23,301	3,345	129	26,517	21,569	2,031	130	23,470
3	1,747	106	21	1,832	2,309	115	31	2,393
4	949	20	41	928	1,320	35	55	1,300
5	297	4	26	275	422	19	22	419
6	207	8	12	203	77	20	4	93
Subtotal Other Securities	3,200	138	100	3,238	4,128	189	112	4,205
Total Corporate Fixed Maturities	$26,501	$3,483	$229	$29,755	$25,697	$2,220	$242	$27,675

Credit Derivative Exposure to Public Fixed Maturities

In addition to the credit exposure from public fixed maturities noted above, we sell credit derivatives to enhance the return on our investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments.

In a credit derivative, we sell credit protection on an identified name, and in return receive a quarterly premium. With single name credit default derivatives, this premium or credit spread generally corresponds to the difference between the yield on the referenced name's public fixed maturity cash instruments and swap rates, at the time the agreement is executed.

The referenced names in the credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit quality and our credit derivatives generally have maturities of ten years or less. Credit derivative contracts are recorded at fair value with changes in fair value, including the premium received, recorded in "Realized investment gains (losses), net." The premium received for the credit derivatives we sell attributable to the Financial Services Businesses was $6 million and $7 million for the years ended December 31, 2011 and 2010, respectively, and were included in adjusted operating income as an adjustment to "Realized investment gains (losses), net."

The following table sets forth our exposure where we have sold credit protection through credit derivatives in the Financial Services Businesses by NAIC rating of the underlying credits as of the dates indicated.

Credit Derivatives, Sold Protection—Financial Services Businesses

	December 31, 2011		December 31, 2010	
	Single Name		Single Name	
NAIC Designation	Notional	Fair Value	Notional	Fair Value
	(in millions)			
1	$745	$3	$290	$3
2	25	0	25	0
Subtotal	770	3	315	3
3 through 6	0	0	0	0
Total(1)	$770	$3	$315	$3

(1) Excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in certain externally-managed investments in the European market. See Note 21 to the Consolidated Financial Statements for additional information regarding these derivatives.

The following table sets forth our exposure where we have sold credit protection through credit derivatives in the Closed Block Business portfolios by NAIC designation of the underlying credits as of the dates indicated.

Credit Derivatives, Sold Protection—Closed Block Business

	December 31, 2011		December 31, 2010	
	Single Name		Single Name	
NAIC Designation	Notional	Fair Value	Notional	Fair Value
	(in millions)			
1	$50	$0	$5	$0
2	0	0	0	0
Subtotal	50	0	5	0
3 through 6	0	0	0	0
Total(1)	$50	$0	$5	$0

(1) Excludes embedded derivatives contained in certain externally-managed investments in the European market. See Note 21 to the Consolidated Financial Statements for additional information regarding these derivatives.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio, including exposures relating to certain guarantees from monoline bond insurers. As of December 31, 2011 and 2010, the Financial Services Businesses had $1.598 billion and $1.785 billion of outstanding notional amounts, reported at fair value as an asset of $2 million and $2 million, respectively. As of December 31, 2011 and 2010, the Closed Block Business had $381 million and $399 million of outstanding notional amounts, reported at fair value as an asset of less than $1 million and a liability of $1 million, respectively. The premium paid for the credit derivatives we purchase attributable to the Financial Services Businesses was $43 million and $50 million for the years ended December 31, 2011 and 2010, respectively, and was included in adjusted operating income as an adjustment to "Realized investment gains (losses), net." See Note 21 to the Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

Unrealized Losses from Fixed Maturity Securities

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

Unrealized Losses from Fixed Maturity Securities, Greater than 20%—Financial Services Businesses

	December 31, 2011		December 31, 2010	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$1,371	$ 349	$ 622	$ 136
Three months or greater but less than six months	1,667	399	751	169
Six months or greater but less than nine months	864	309	1,094	283
Nine months or greater but less than twelve months	745	193	173	52
Greater than twelve months	3,809	1,392	2,503	908
Total	$8,456	$2,642	$5,143	$1,548

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below amortized cost by 20% or more, using month-end valuations.

Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more of $2.642 billion as of December 31, 2011, include $847 million relating to asset-backed securities collateralized by sub-prime mortgages. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more as of December 31, 2011, also includes $80 million of gross unrealized losses on securities with amortized cost of $132 million where the estimated fair value had declined and remained below amortized cost by 50% or more, of which, $23 million was included in the less than three months timeframe, $22 million was included in the three months or greater but less than six months timeframe, $1 million was included in the six months or greater but less than nine months timeframe, and $34 million was included in the greater than twelve months timeframe. We have not recognized the gross unrealized losses shown in the tables above as other-than-temporary impairments in earnings based on our detailed analysis of the underlying credit and cash flows on each of these securities. The gross unrealized losses are primarily attributable to foreign currency movements, general credit spread widening in the structured credit marketplace and liquidity discounts, and we believe the recoverable value of these investments based on the expected future cash flows is greater than or equal to our remaining amortized cost. At December 31, 2011, we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the anticipated recovery of its remaining amortized cost basis. See "—Other-Than-Temporary Impairments of Fixed Maturity Securities" for a discussion of the factors we consider in making these determinations.

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

Unrealized Losses from Fixed Maturity Securities, Greater than 20%—Closed Block Business

	December 31, 2011		December 31, 2010	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 122	$ 33	$ 173	$ 37
Three months or greater but less than six months	353	90	149	43
Six months or greater but less than nine months	179	55	70	16
Nine months or greater but less than twelve months	122	34	73	22
Greater than twelve months	1,263	605	1,518	559
Total	$2,039	$817	$1,983	$677

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below amortized cost by 20% or more, using month-end valuations.

The gross unrealized losses were primarily concentrated in asset-backed securities as of December 31, 2011 and 2010. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more of $817 million as of December 31, 2011, include $730 million relating to asset-backed securities collateralized by sub-prime mortgages. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more as of December 31, 2011, does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below amortized cost by 50% or more. We have not recognized the gross unrealized losses shown in the tables above as other-than-temporary impairments in earnings based on our detailed analysis of the underlying credit and cash flows on each of these securities. The gross unrealized losses are primarily attributable to general credit spread widening in the structured credit marketplace and liquidity discounts, and we believe the recoverable value of these investments based on the expected future cash flows is greater than or equal to our remaining amortized cost. At December 31, 2011, we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the anticipated recovery of its remaining amortized cost basis. See "—Other-Than-Temporary Impairments of Fixed Maturity Securities" for a discussion of the factors we consider in making these determinations.

Other-Than-Temporary Impairments of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity asset managers formally review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns.

For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish "checks and balances" for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our private fixed maturity asset managers formally review all private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns.

Fixed maturity securities classified as held-to-maturity are those securities where we have the intent and ability to hold the securities until maturity. These securities are reflected at amortized cost in our consolidated statements of financial position. Other fixed maturity securities are considered available-for-sale and, as a result, we record unrealized gains and losses to the extent that amortized cost is different from estimated fair value. All held-to-maturity securities and all available-for-sale securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value.

In evaluating whether a decline in value is other-than-temporary, we consistently consider several factors including, but not limited to, the following:

- the reasons for the decline in value (credit event, currency or interest rate related, including general credit spread widening);
- the financial condition of and near-term prospects of the issuer; and
- the extent and duration of the decline.

In determining whether a decline in value is other-than-temporary, we place greater emphasis on our analysis of the underlying credit versus the extent and duration of a decline in value. Our credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that we will be able to collect all amounts due according to the contractual terms of the security, and analyzing our overall ability to recover the amortized cost of the investment. We continue to utilize valuation declines as a potential indicator of credit deterioration, and apply additional levels of scrutiny in our analysis as the severity and duration of the decline increases.

In addition, we recognize an other-than-temporary impairment in earnings for a debt security in an unrealized loss position when (a) we have the intent to sell the debt security, or (b) it is more likely than not we will be required to sell the debt security before its anticipated recovery or (c) a foreign currency denominated security with a foreign currency translation loss approaches maturity. For all debt securities in unrealized loss positions that do not meet any of these criteria, we analyze our ability to recover the amortized cost by comparing the net present value of our best estimate of projected future cash flows with the amortized cost of the security. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded. The determination of the assumptions used in these projections requires the use of significant management judgment. See Note 2 to the Consolidated Financial Statements for additional information regarding these assumptions and our policies for recognizing other-than-temporary impairments for debt securities.

Other-than-temporary impairments of general account fixed maturity securities attributable to the Financial Services Businesses that were recognized in earnings were $431 million and $564 million for the years ended December 31, 2011 and 2010, respectively. Included in the other-than-temporary impairments of general account fixed maturities attributable to the Financial Services Businesses for the years ended December 31, 2011 and 2010, were $118 million and $209 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages.

Other-than-temporary impairments of fixed maturity securities attributable to the Closed Block Business that were recognized in earnings were $104 million and $168 million for the years ended December 31, 2011 and 2010, respectively. Included in the other-than-temporary impairments of fixed maturities attributable to the Closed Block Business for the years ended December 31, 2011 and 2010, were $67 million and $133 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. For a further discussion of other-than-temporary impairments, see "—Realized Investment Gains and Losses" above.

Trading account assets supporting insurance liabilities

Certain products included in the Retirement and International Insurance segments are experience-rated, meaning that we expect the investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage and other loans, are primarily classified as trading and are reflected on the balance sheet as "Trading account assets supporting insurance liabilities, at fair value." Realized and unrealized gains and losses for these investments are reported in "Asset management fees and other income," and excluded from adjusted operating income. Investment income for these investments is reported in "Net investment income," and is included in adjusted operating income. The following table sets forth the composition of this portfolio as of the dates indicated.

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 951	$ 951	$ 697	$ 697
Fixed maturities:				
Corporate securities	10,297	11,036	9,581	10,118
Commercial mortgage-backed securities	2,157	2,247	2,352	2,407
Residential mortgage-backed securities	1,786	1,844	1,350	1,363
Asset-backed securities	1,504	1,367	1,158	1,030
Foreign government bonds	644	655	567	569
U.S. government authorities and agencies and obligations of U.S. states	440	470	467	448
Total fixed maturities	16,828	17,619	15,475	15,935
Equity securities	1,050	911	1,156	1,139
Total trading account assets supporting insurance liabilities	$18,829	$19,481	$17,328	$17,771

As a percentage of amortized cost, 75% and 76% of the portfolio was publicly traded as of December 31, 2011 and 2010. As of December 31, 2011 and 2010, 92% and 90%, respectively, of the fixed maturity portfolio was considered high or highest quality based on NAIC or equivalent rating. As of December 31, 2011, $1.662 billion of the residential mortgage-backed securities were publicly traded agency pass-through securities, which are supported by implicit or explicit government guarantees all of which have credit ratings of A or higher. Collateralized mortgage obligations, including approximately $91 million secured by "ALT-A" mortgages, represented the remaining $124 million of residential mortgage-backed securities, of which 77% have credit ratings of A or better and 23% are BBB and below. For a discussion of changes in the fair value of our trading account assets supporting insurance liabilities see "—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments," above.

The following table sets forth the composition by industry category of the corporate securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated.

Corporate Securities by Industry Category—Trading Account Assets Supporting Insurance Liabilities

	December 31, 2011		December 31, 2010	
Industry(1)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Corporate Securities:				
Manufacturing	$ 3,119	$ 3,401	$3,084	$ 3,306
Utilities	1,819	1,996	1,961	2,076
Services	1,959	2,088	1,700	1,783
Finance	1,711	1,720	1,270	1,290
Energy	656	726	704	753
Transportation	565	599	467	495
Retail and Wholesale	452	490	378	398
Other	16	16	17	17
Total Corporate Securities	$10,297	$11,036	$9,581	$10,118

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

The following tables set forth our asset-backed securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost—Trading Account Assets Supporting Insurance Liabilities

	December 31, 2011						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2010
					(in millions)		
Collateralized by sub-prime mortgages:							
2011—2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	0	120	120	124
2006	0	0	0	1	79	80	101
2005	0	0	0	0	35	35	50
2004 & Prior	1	8	4	11	41	65	71
Total collateralized by sub-prime mortgages	1	8	4	12	275	300	346
Other asset-backed securities:							
Collateralized by auto loans	274	0	0	18	0	292	36
Collateralized by credit cards	400	0	0	49	0	449	443
Other asset-backed securities	267	145	21	19	11	463	333
Total asset-backed securities	$942	$153	$25	$98	$286	$1,504	$1,158

Asset-Backed Securities at Fair Value—Trading Account Assets Supporting Insurance Liabilities

	December 31, 2011						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2010
					(in millions)		
Collateralized by sub-prime mortgages:							
2011—2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	0	42	42	56
2006	0	0	0	1	45	46	65
2005	0	0	0	0	25	25	36
2004 & Prior	1	7	3	8	25	44	51
Total collateralized by sub-prime mortgages(1)	1	7	3	9	137	157	208
Other asset-backed securities:							
Collateralized by auto loans	274	0	0	19	0	293	36
Collateralized by credit cards	412	0	0	49	0	461	460
Other asset-backed securities(2)	268	144	21	14	9	456	326
Total asset-backed securities	$955	$151	$24	$91	$146	$1,367	$1,030

(1) Included within the $157 million of asset-backed securities collateralized by sub-prime mortgages at fair value as of December 31, 2011 are $0 million of securities collateralized by second-lien exposures at fair value.

(2) As of December 31, 2011, includes collateralized debt obligations with fair value of $31 million, none of which is secured by sub-prime mortgages. Also includes asset-backed securities collateralized by timeshares, franchises, education loans, and equipment leases.

The following tables set forth our commercial mortgage-backed securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost—Trading Account Assets Supporting Insurance Liabilities

	December 31, 2011						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2010
					(in millions)		
2011	$ 16	$ 10	$ 0	$ 0	$ 0	$ 26	$ 0
2010	0	103	0	0	0	103	65
2009	0	4	0	0	0	4	32
2008	30	0	0	0	0	30	30
2007	195	0	0	0	0	195	128
2006	578	53	0	0	0	631	651
2005 & Prior	1,111	7	22	17	11	1,168	1,446
Total commercial mortgage-backed securities(1)	$1,930	$177	$22	$17	$11	$2,157	$2,352

(1) Included in the table above as of December 31, 2011 are downgraded super senior securities with amortized cost of $53 million in AA.

Commercial Mortgage-Backed Securities at Fair Value—Trading Account Assets Supporting Insurance Liabilities

	December 31, 2011						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2010
	(in millions)						
2011	$ 17	$ 11	$ 0	$ 0	$0	$ 28	$ 0
2010	0	111	0	0	0	111	64
2009	0	5	0	0	0	5	31
2008	31	0	0	0	0	31	31
2007	198	0	0	0	0	198	130
2006	607	55	0	0	0	662	670
2005 & Prior	1,164	7	20	12	9	1,212	1,481
Total commercial mortgage-backed securities	$2,017	$189	$20	$12	$9	$2,247	$2,407

The following table sets forth our public fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC designation as of the dates indicated.

Public Fixed Maturity Securities—Trading Account Assets Supporting Insurance Liabilities

(1)(2)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
	(in millions)							
1	$ 8,892	$472	$ 92	$ 9,272	$ 7,836	$313	$ 93	$ 8,056
2	2,560	217	15	2,762	2,768	160	44	2,884
Subtotal High or Highest Quality Securities	11,452	689	107	12,034	10,604	473	137	10,940
3	283	11	9	285	329	12	30	311
4	163	2	49	116	178	3	35	146
5	77	1	33	45	77	1	30	48
6	82	0	50	32	67	0	41	26
Subtotal Other Securities	605	14	141	478	651	16	136	531
Total Public Fixed Maturities	$12,057	$703	$248	$12,512	$11,255	$489	$273	$11,471

(1) See "—Fixed Maturity Securities Credit Quality" above for a discussion on NAIC designations.
(2) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(3) Amounts are reported in "Asset management fees and other income."

The following table sets forth our private fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC designation as of the dates indicated.

Private Fixed Maturity Securities—Trading Account Assets Supporting Insurance Liabilities

(1)(2)	December 31, 2011				December 31, 2010			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
	(in millions)							
1	$ 828	$ 74	$10	$ 892	$ 805	$ 66	$11	$ 860
2	3,143	262	13	3,392	2,584	187	10	2,761
Subtotal High or Highest Quality Securities	3,971	336	23	4,284	3,389	253	21	3,621
3	588	33	2	619	656	27	6	677
4	123	3	5	121	98	4	5	97
5	76	0	4	72	54	1	4	51
6	13	0	2	11	23	1	6	18
Subtotal Other Securities	800	36	13	823	831	33	21	843
Total Private Fixed Maturities	$4,771	$372	$36	$5,107	$4,220	$286	$42	$4,464

(1) See "—Fixed Maturity Securities Credit Quality" above for a discussion on NAIC designations.
(2) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(3) Amounts are reported in "Asset management fees and other income."

Other Trading Account Assets

"Other trading account assets, at fair value" consist primarily of certain financial instruments that contain an embedded derivative where we elected to classify the entire instrument as a trading account asset rather than bifurcate. These instruments are carried at fair value, with realized and unrealized gains and losses reported in "Asset management fees and other income," and excluded from adjusted operating income. Interest and dividend income from these investments is reported in "Net investment income," and is included in adjusted operating income. The following table sets forth the composition of our other trading account assets as of the dates indicated.

	December 31, 2011				December 31, 2010			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
				(in millions)				
Short-term investments and cash equivalents	$ 4	$ 4	$ 0	$ 0	$ 3	$ 3	$ 0	$ 0
Fixed maturities:								
Corporate securities	116	104	110	119	161	150	110	118
Commercial mortgage-backed	155	111	0	0	143	103	0	0
Residential mortgage-backed	186	96	0	0	301	181	0	0
Asset-backed securities	598	551	69	70	636	589	36	37
Foreign government	46	46	0	0	25	25	0	0
U.S. government	4	4	0	0	0	0	0	0
Total fixed maturities	1,105	912	179	189	1,266	1,048	146	155
Equity securities(1)	1,226	1,177	133	128	157	156	1	1
Other	11	11	0	0	12	13	0	0
Total other trading account assets	$2,346	$2,104	$312	$317	$1,438	$1,220	$147	$156

(1) During 2011, perpetual preferred stocks of $1.3 billion ($1.2 billion Financial Services Businesses, $0.1 billion Closed Block Business) were reclassified from "Equity securities, available-for-sale." Prior periods were not restated.

As of December 31, 2011, on an amortized cost basis 82% of asset-backed securities classified as "Other trading account assets" attributable to the Financial Services Businesses have credit ratings of A or above, 9% have BBB and the remaining 9% have BB and below credit ratings. As of December 31, 2011, on an amortized cost basis 75% of asset-backed securities classified as "Other trading account assets" attributable to the Closed Block Business have credit ratings of A or above and the remaining 25% have BBB credit ratings.

Commercial Mortgage and Other Loans

Investment Mix

As of December 31, 2011 and 2010 we held approximately 10% and 11%, respectively, of our general account investments in commercial mortgage and other loans. This percentage is net of a $310 million and $435 million allowance for losses as of December 31, 2011 and 2010, respectively. The following table sets forth the composition of our commercial mortgage and other loans portfolio, before the allowance for losses, as of the dates indicated.

	December 31, 2011		December 31, 2010	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
		(in millions)		
Commercial and agricultural mortgage loans	$21,988	$9,100	$19,796	$8,608
Uncollateralized loans	2,236	0	1,467	0
Residential property loans	1,033	0	891	1
Other collateralized loans	66	0	80	0
Total commercial mortgage and other loans(1)	$25,323	$9,100	$22,234	$8,609

(1) Excluded from the table above are commercial mortgage loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage loans held outside the general account, see "—Invested Assets of Other Entities and Operations" below.

We originate commercial and agricultural mortgage loans using a dedicated investment staff and a network of independent companies through our various regional offices. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our experience in real estate and mortgage lending.

Uncollateralized loans primarily represent reverse dual currency loans and corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third party guarantors.

Other collateralized loans attributable to the Financial Services Businesses include $63 million and $75 million of collateralized consumer loans and $0 million and $4 million of loans collateralized by aviation assets as of December 31, 2011 and 2010, respectively.

Composition of Commercial and Agricultural Mortgage Loans

The commercial real estate market was severely impacted by the financial crisis and the subsequent recession, though the flow of capital to commercial real estate has been strong since 2010. Portfolio lenders are actively originating loans on the highest quality properties in primary markets, resulting in an increase in the liquidity and availability of capital in the commercial mortgage loan market. For certain property types, the market fundamentals are stabilizing to slightly improving, while other property types have farther to go in this recovery. In addition, the commercial banks are active and there has been new loan origination activity by securitization lenders. These conditions have led to greater competition for portfolio lenders such as our general account, though underwriting remains conservative. While there is still weakness in commercial real estate fundamentals that are dependent on employment recovery, delinquency rates on our commercial mortgage loans remain relatively stable. For additional information see "— Realized Investment Gains and Losses."

Our commercial and agricultural mortgage loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of our general account investments in commercial and agricultural mortgage loans by geographic region and property type as of the dates indicated.

	December 31, 2011				December 31, 2010			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by region:								
U.S. Regions:								
Pacific	$ 7,136	32.5%	$3,118	34.3%	$ 5,845	29.5%	$2,861	33.2%
South Atlantic	4,568	20.8	1,868	20.5	4,612	23.3	1,739	20.2
Middle Atlantic	3,221	14.6	2,109	23.2	3,122	15.8	1,959	22.8
East North Central	1,579	7.2	336	3.7	1,607	8.1	356	4.1
West South Central	1,858	8.4	688	7.6	1,541	7.8	676	7.9
Mountain	1,181	5.4	356	3.9	1,081	5.5	358	4.2
New England	637	2.9	257	2.8	623	3.1	269	3.1
West North Central	576	2.6	185	2.0	516	2.6	183	2.1
East South Central	307	1.4	152	1.7	317	1.6	156	1.8
Subtotal—U.S.	21,063	95.8	9,069	99.7	19,264	97.3	8,557	99.4
Asia	519	2.4	0	0.0	224	1.1	0	0.0
Other	406	1.8	31	0.3	308	1.6	51	0.6
Total commercial and agricultural mortgage loans	$21,988	100.0%	$9,100	100.0%	$19,796	100.0%	$8,608	100.0%

	December 31, 2011				December 31, 2010			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by property type:								
Industrial buildings	$ 5,234	23.8%	$1,804	19.8%	$ 4,627	23.4%	$1,910	22.2%
Retail stores	4,988	22.7	2,207	24.2	4,276	21.6	1,938	22.5
Office buildings	4,043	18.4	2,216	24.4	3,676	18.5	1,900	22.1
Apartments/Multi-family	3,263	14.8	1,254	13.8	3,004	15.2	1,321	15.3
Other	2,079	9.5	517	5.7	1,882	9.5	452	5.3
Agricultural properties	1,363	6.2	674	7.4	1,205	6.1	680	7.9
Hospitality	1,018	4.6	428	4.7	1,126	5.7	407	4.7
Total commercial and agricultural mortgage loans	$21,988	100.0%	$9,100	100.0%	$19,796	100.0%	$8,608	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial and agricultural mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% percent indicate that the loan amount is greater than the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments.

As of December 31, 2011, our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses had a weighted average debt service coverage ratio of 1.88 times, and a weighted average loan-to-value ratio of 59%.

As of December 31, 2011, approximately 98% of commercial and agricultural mortgage loans attributable to the Financial Services Businesses were fixed rate loans. As of December 31, 2011, our general account investments in commercial and agricultural mortgage loans attributable to the Closed Block Business had a weighted average debt service coverage ratio of 1.90 times, and a weighted average loan-to-value ratio of 55%. As of December 31, 2011, approximately 99% of commercial and agricultural mortgage loans attributable to the Closed Block Business were fixed rate loans. For those general account commercial and agricultural mortgage loans attributable to the Financial Services Businesses that were originated in 2011, the weighted average debt service coverage ratio was 2.09 times and the weighted average loan-to-value ratio was 59%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial and agricultural mortgage loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for loan losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial and agricultural mortgage loan portfolio attributable to the Financial Services Businesses included approximately $0.5 billion of such loans as of December 31, 2011 and $0.6 billion of such loans as of December 31, 2010, and our commercial and agricultural mortgage loan portfolio attributable to the Closed Block Business included approximately $0.2 billion of such loans as of December 31, 2011 and 2010. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of December 31, 2011, there are no loan-specific reserves related to these loans attributable to either the Financial Services Businesses or the Closed Block Business. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see "—Invested Assets of Other Entities and Operations." The following tables set forth the gross carrying value of our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses and the Closed Block Business as of the dates indicated by loan-to-value and debt service coverage ratios.

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios—Financial Services Businesses

	December 31, 2011						
	Debt Service Coverage Ratio						
Loan-to-Value Ratio	Greater than 2.0x	1.8x to 2.0x	1.5x to <1.8x	1.2x to <1.5x	1.0x to <1.2x	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
	(in millions)						
0%—49.99%	$3,346	$1,026	$1,039	$ 854	$ 272	$ 80	$ 6,617
50%—59.99%	1,268	820	1,016	430	120	58	3,712
60%—69.99%	1,918	1,032	1,354	1,407	520	166	6,397
70%—79.99%	481	201	588	1,350	791	137	3,548
80%—89.99%	0	0	115	302	194	351	962
90%—100%	19	19	0	0	40	321	399
Greater than 100%	16	0	17	14	39	267	353
Total commercial and agricultural mortgage loans	$7,048	$3,098	$4,129	$4,357	$1,976	$1,380	$21,988

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios—Closed Block Business

	December 31, 2011						
	Debt Service Coverage Ratio						
Loan-to-Value Ratio	Greater than 2.0x	1.8x to 2.0x	1.5x to <1.8x	1.2x to <1.5x	1.0x to <1.2x	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
	(in millions)						
0%—49.99%	$1,801	$383	$ 490	$ 407	$180	$ 63	$3,324
50%—59.99%	496	199	359	276	133	35	1,498
60%—69.99%	563	388	619	803	186	89	2,648
70%—79.99%	118	10	183	524	466	80	1,381
80%—89.99%	0	0	18	35	26	51	130
90%—100%	0	0	0	0	0	35	35
Greater than 100%	0	0	0	24	7	53	84
Total commercial and agricultural mortgage loans	$2,978	$980	$1,669	$2,069	$998	$406	$9,100

The following table sets forth the breakdown of our commercial and agricultural mortgage loans by year of origination as of December 31, 2011.

	December 31, 2011			
	Financial Services Businesses		Closed Block Business	
Year of Origination	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
2011	$ 4,940	22.5%	$1,473	16.2%
2010	3,243	14.7	1,086	11.9
2009	1,507	6.9	491	5.4
2008	2,861	13.0	1,120	12.3
2007	3,496	15.9	1,442	15.9
2006 and prior	5,941	27.0	3,488	38.3
Total commercial and agricultural mortgage loans	$21,988	100.0%	$9,100	100.0%

Commercial Mortgage and Other Loans by Contractual Maturity Date

The following table sets forth the breakdown of our commercial mortgage and other loan portfolio by contractual maturity as of December 31, 2011.

	December 31, 2011			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
Vintage				
Maturing in 2012	$ 2,297	9.1%	$ 735	8.1%
Maturing in 2013	2,409	9.5	680	7.5
Maturing in 2014	1,540	6.1	860	9.4
Maturing in 2015	2,386	9.4	878	9.6
Maturing in 2016	2,892	11.4	957	10.5
Maturing in 2017	2,686	10.6	635	7.0
Maturing in 2018	3,117	12.3	1,061	11.7
Maturing in 2019	742	2.9	271	3.0
Maturing in 2020	1,560	6.2	850	9.3
Maturing in 2021	2,149	8.5	1,029	11.3
Maturing in 2022	803	3.2	327	3.6
Maturing in 2023 and beyond	2,742	10.8	817	9.0
Total commercial mortgage and other loans	$25,323	100.0%	$9,100	100.0%

Commercial Mortgage and Other Loan Quality

Ongoing review of the portfolio is performed and loans are placed on watch list status based on a predefined set of criteria, where they are assigned to one of the following categories. We place loans on early warning status in cases where, based on our analysis of the loan's collateral, the financial situation of the borrower or tenants or other market factors, we believe a loss of principal or interest could occur. We classify loans as closely monitored when we determine there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where we have concluded that there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. As described below, in determining our allowance for losses we evaluate each loan on the watch list to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. In our international portfolios, we monitor delinquency in consumer loans on a pool basis and evaluate any servicing relationship and guarantees the same way we do for commercial mortgage loans.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan specific reserves for loans that are determined to be impaired as a result of our loan review process, and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define an impaired loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan specific portion of the loss allowance is based on our assessment as to ultimate collectability of loan principal and interest. Valuation allowances for an impaired loan are recorded based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above. The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability, and loss severity factors by property type. These factors are reviewed and updated as appropriate. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors. The following tables set forth the aging schedule of our general account investments in commercial mortgage and other loans, based upon the recorded investment gross of allowance for credit losses, attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

Commercial Mortgage and Other Loans—Financial Services Businesses

	December 31, 2011						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days-Accruing	Greater Than 90 Days-Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans
	(in millions)						
Commercial mortgage loans:							
Industrial	$ 5,234	$ 0	$ 0	$0	$ 0	$ 0	$ 5,234
Retail	4,983	0	0	0	5	5	4,988
Office	4,022	5	0	0	16	21	4,043
Multi-Family/Apartment	3,217	0	0	0	46	46	3,263
Hospitality	1,018	0	0	0	0	0	1,018
Other	2,029	13	10	0	27	50	2,079
Total commercial mortgage loans	20,503	18	10	0	94	122	20,625
Agricultural property loans	1,331	1	1	0	30	32	1,363
Residential property loans	987	22	6	0	18	46	1,033
Other collateralized loans	66	0	0	0	0	0	66
Uncollateralized loans	2,236	0	0	0	0	0	2,236
Total	$25,123	$41	$17	$0	$142	$200	$25,323

Commercial Mortgage and Other Loans—Closed Block Business

	December 31, 2011						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days-Accruing	Greater Than 90 Days-Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans
	(in millions)						
Commercial mortgage loans:							
Industrial	$1,802	$0	$2	$0	$0	$2	$1,804
Retail	2,207	0	0	0	0	0	2,207
Office	2,216	0	0	0	0	0	2,216
Multi-Family/Apartment	1,254	0	0	0	0	0	1,254
Hospitality	428	0	0	0	0	0	428
Other	517	0	0	0	0	0	517
Total commercial mortgage loans	8,424	0	2	0	0	2	8,426
Agricultural property loans	674	0	0	0	0	0	674
Residential property loans	0	0	0	0	0	0	0
Other collateralized loans	0	0	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0	0	0
Total	$9,098	$0	$2	$0	$0	$2	$9,100

Commercial Mortgage and Other Loans—Financial Services Businesses

	December 31, 2010						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days-Accruing	Greater Than 90 Days-Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans
	(in millions)						
Commercial mortgage loans:							
Industrial	$ 4,627	$ 0	$ 0	$0	$ 0	$ 0	$ 4,627
Retail	4,213	58	0	0	5	63	4,276
Office	3,655	21	0	0	0	21	3,676
Multi-Family/Apartment	3,003	0	0	0	1	1	3,004
Hospitality	1,029	11	10	0	76	97	1,126
Other	1,829	17	0	0	36	53	1,882
Total commercial mortgage loans	18,356	107	10	0	118	235	18,591
Agricultural property loans	1,174	1	0	0	30	31	1,205
Residential property loans	847	20	3	0	21	44	891
Other collateralized loans	78	0	0	0	2	2	80
Uncollateralized loans	1,467	0	0	0	0	0	1,467
Total	$21,922	$128	$13	$0	$171	$312	$22,234

Commercial Mortgage and Other Loans—Closed Block Business

	December 31, 2010						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days-Accruing	Greater Than 90 Days-Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans
				(in millions)			
Commercial mortgage loans:							
Industrial	$1,910	$0	$0	$0	$ 0	$ 0	$1,910
Retail	1,934	4	0	0	0	4	1,938
Office	1,900	0	0	0	0	0	1,900
Multi-Family/Apartment	1,321	0	0	0	0	0	1,321
Hospitality	399	0	0	0	8	8	407
Other	436	0	0	0	16	16	452
Total commercial mortgage loans	7,900	4	0	0	24	28	7,928
Agricultural property loans	680	0	0	0	0	0	680
Residential property loans	1	0	0	0	0	0	1
Other collateralized loans	0	0	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0	0	0
Total	$8,581	$4	$0	$0	$24	$28	$8,609

The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated:

	December 31, 2011		December 31, 2010	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
		(in millions)		
Allowance, beginning of year	$333	$102	$410	$124
Addition to/(release of) allowance for losses	(71)	(42)	(78)	(22)
Charge-offs, net of recoveries	(15)	0	(1)	0
Change in foreign exchange	3	0	2	0
Allowance, end of period	$250	$ 60	$333	$102

As of December 31, 2011, the $250 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included $91 million related to loan specific reserves and $159 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2010, the $333 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included $143 million related to loan specific reserves and $190 million related to the portfolio reserve for probable incurred but not specifically identified losses.

As of December 31, 2011, the $60 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included $2 million related to loan specific reserves and $58 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2010, the $102 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included $17 million related to loan specific reserves and $85 million related to the portfolio reserve for probable incurred but not specifically identified losses. The decrease in the allowance for both the Financial Services Businesses and the Closed Block Business primarily reflects positive credit migration for certain mortgages.

Equity Securities

Investment Mix

The equity securities attributable to the Financial Services Businesses consist principally of investments in common and preferred stock of publicly traded companies, as well as mutual fund shares and perpetual preferred securities, as discussed below. The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities—Financial Services Businesses

	December 31, 2011				December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
Public Equity								
Perpetual preferred stocks(1)	$ 0	$ 0	$ 0	$ 0	$ 249	$ 19	$14	$ 254
Non-redeemable preferred stocks	1	1	0	2	9	4	0	13
Mutual fund common stocks(2)	1,708	428	2	2,134	1,592	462	0	2,054
Other common stocks	2,400	75	272	2,203	1,267	112	44	1,335
Total public equity	4,109	504	274	4,339	3,117	597	58	3,656
Private Equity								
Perpetual preferred stocks(1)	0	0	0	0	449	15	16	448
Non-redeemable preferred stocks	18	0	1	17	15	0	5	10
Common stock	28	17	0	45	12	10	1	21
Total private equity(3)	46	17	1	62	476	25	22	479
Total equity	$4,155	$521	$275	$4,401	$3,593	$622	$80	$4,135

(1) During 2011, perpetual preferred stocks of $1.2 billion were reclassified to "Other trading account assets." Prior periods were not restated.
(2) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.
(3) Hedge funds and other alternative investments are included in "Other long-term investments."

The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities—Closed Block Business

	December 31, 2011				December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
Public Equity								
Perpetual preferred stocks(1)	$ 0	$ 0	$ 0	$ 0	$ 133	$ 11	$ 4	$ 140
Non-redeemable preferred stocks	2	0	0	2	0	0	0	0
Common stock	2,746	538	173	3,111	2,725	759	37	3,447
Total public equity	2,748	538	173	3,113	2,858	770	41	3,587
Private Equity								
Perpetual preferred stocks(1)	0	0	0	0	0	0	0	0
Non-redeemable preferred stocks	9	0	0	9	6	0	0	6
Common stock	0	0	0	0	0	0	0	0
Total private equity	9	0	0	9	6	0	0	6
Total equity	$2,757	$538	$173	$3,122	$2,864	$770	$41	$3,593

(1) During 2011, perpetual preferred stocks of $0.1 billion were reclassified to "Other trading account assets." Prior periods were not restated.

Unrealized Losses from Equity Securities

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by less than 20% for the following timeframes:

Unrealized Losses from Equity Securities, Less than 20%—Financial Services Businesses

	December 31, 2011		December 31, 2010	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
		(in millions)		
Less than three months	$ 508	$ 31	$108	$ 2
Three months or greater but less than six months	551	54	226	13
Six months or greater but less than nine months	191	24	269	19
Nine months or greater but less than twelve months	193	35	20	3
Greater than twelve months(2)	0	0	302	18
Total	$1,443	$144	$925	$55

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by less than 20%, using month-end valuations.
(2) Includes only perpetual preferred stocks as of December 31, 2010. During 2011, perpetual preferred stocks were reclassified to "Other trading account assets." Prior periods were not restated.

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

Unrealized Losses from Equity Securities, Greater than 20%—Financial Services Businesses

	December 31, 2011		December 31, 2010	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$243	$ 63	$13	$ 4
Three months or greater but less than six months	172	60	24	8
Six months or greater but less than nine months	20	8	2	1
Nine months or greater but less than twelve months	0	0	1	1
Greater than twelve months(2)	0	0	24	11
Total	$435	$131	$64	$25

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by 20% or more, using month-end valuations.
(2) Includes only perpetual preferred stocks as of December 31, 2010. During 2011, perpetual preferred stocks were reclassified to "Other trading account assets." Prior periods were not restated.

The gross unrealized losses as of December 31, 2011, were primarily concentrated in the other, manufacturing, and finance sectors compared to December 31, 2010, where the gross unrealized losses were primarily concentrated in the finance and public utilities sectors. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more of $131 million as of December 31, 2011, also include $3 million of gross unrealized losses on securities with amortized cost of $5 million where the estimated fair value had declined and remained below cost by 50% or more. The gross unrealized losses of $3 million were included in the less than three months timeframe. Included in the December 31, 2010 amounts above are perpetual preferred securities. Perpetual preferred securities have characteristics of both debt and equity securities. Since we apply to these securities an impairment model similar to our fixed maturity securities, we have not recognized an other-than-temporary impairment on certain of these perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of December 31, 2010. We have not recognized the gross unrealized losses shown in the table above as other-than-temporary impairments. See "—Other-Than-Temporary Impairments of Equity Securities" for a discussion of the factors we consider in making these determinations.

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by less than 20% for the following timeframes:

Unrealized Losses from Equity Securities, Less than 20%—Closed Block Business

	December 31, 2011		December 31, 2010	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$377	$23	$253	$10
Three months or greater but less than six months	287	28	76	4
Six months or greater but less than nine months	151	14	107	9
Nine months or greater but less than twelve months	18	3	56	4
Greater than twelve months(2)	0	0	32	4
Total	$833	$68	$524	$31

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by less than 20%, using month-end valuations.
(2) Includes only perpetual preferred stocks as of December 31, 2010. During 2011, perpetual preferred stocks were reclassified to "Other trading account assets." Prior periods were not restated.

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

Unrealized Losses from Equity Securities, Greater than 20%—Closed Block Business

	December 31, 2011		December 31, 2010	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$164	$ 43	$12	$ 3
Three months or greater but less than six months	166	59	11	3
Six months or greater but less than nine months	8	3	10	4
Nine months or greater but less than twelve months	0	0	0	0
Greater than twelve months	0	0	0	0
Total	$338	$105	$33	$10

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by 20% or more, using month-end valuations.

The gross unrealized losses as of December 31, 2011, were primarily concentrated in the manufacturing and finance sectors compared to December 31, 2010, where the gross unrealized losses were primarily concentrated in the services, manufacturing, and finance sectors. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more of $105 million as of December 31, 2011 does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below cost by 50% or more. Perpetual preferred securities have characteristics of both debt and equity securities. Since we apply to these securities an impairment model similar to our fixed maturity securities, we have not recognized an other-than-temporary impairment on certain of these perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of December 31, 2010. We have not recognized the gross unrealized losses shown in the table above as other-than-temporary impairments. See "—Other-Than-Temporary Impairments of Equity Securities" for a discussion of the factors we consider in making these determinations.

Other-Than-Temporary Impairments of Equity Securities

For those equity securities classified as available-for-sale, we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consistently consider several factors including, but not limited to, the following:

- the extent and the duration of the decline; including, but not limited to, the following general guidelines:
  - declines in value greater than 20%, maintained for six months or greater;
  - declines in value maintained for one year or greater; and
  - declines in value greater than 50%;
- the reasons for the decline in value (issuer specific event, currency or market fluctuation);
- our ability and intent to hold the investment for a period of time to allow for a recovery of value, including certain equity securities managed by independent third parties where we do not exercise management discretion concerning individual buy or sell decisions; and
- the financial condition of and near-term prospects of the issuer.

We generally recognize other-than-temporary impairments for securities with declines in value greater than 50% maintained for six months or greater or with any decline in value maintained for one year or greater. In addition, in making our determinations we continue to analyze the financial condition and near-term prospects of the issuer, including an assessment of the issuer's capital position, and consider our ability and intent to hold the investment for a period of time to allow for a recovery of value.

For those securities that have declines in value that are deemed to be only temporary, we make an assertion as to our ability and intent to retain the security until recovery. Once identified, these securities are restricted from trading unless authorized based upon events that could not have been foreseen at the time we asserted our ability and intent to retain the security until recovery. Examples of such events include, but are not limited to, the deterioration of the issuer's creditworthiness, a major business combination or disposition, a change in regulatory requirements, certain other portfolio actions or other similar events. For those securities that have declines in value for which we cannot assert our ability and intent to retain until recovery, including certain equity securities managed by independent third parties where we do not exercise management discretion concerning individual buy or sell decisions, impairments are recognized as other-than-temporary regardless of the reason for, or the extent of, the decline. For perpetual preferred securities, which have characteristics of both debt and equity securities, we apply an impairment model similar to our fixed maturity securities, factoring in the position of the security in the capital structure and the lack of a formal maturity date. For additional discussion of our policies regarding other-than-temporary impairments of fixed maturity securities, see "—Fixed Maturity Securities—Other-than-Temporary Impairments of Fixed Maturity Securities" above.

When we determine that there is an other-than-temporary impairment, we record a writedown to estimated fair value, which reduces the cost basis and is included in "Realized investment gains (losses), net." See Note 2 to the Consolidated Financial Statements for additional information regarding our policies around other-than-temporary impairments for equity securities. See Note 20 to the Consolidated Financial Statements for information regarding the fair value methodology used for equity securities.

Impairments of equity securities attributable to the Financial Services Businesses were $94 million and $78 million for the years ended December 31, 2011 and 2010, respectively. Impairments of equity securities attributable to the Closed Block Business were $18 million and $34 million for years ended December 31, 2011 and 2010, respectively. For a further discussion of impairments, see "—Realized Investment Gains and Losses" above.

Other Long-Term Investments

"Other long-term investments" are comprised as follows:

	December 31, 2011		December 31, 2010	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				
Real estate-related	$ 360	$ 413	$ 163	$ 361
Non-real estate-related	1,733	1,284	1,070	1,162
Real estate held through direct ownership(1)	1,956	10	1,141	1
Other(2)	432	283	614	58
Total other long-term investments	$4,481	$1,990	$2,988	$1,582

(1) Primarily includes investment in office buildings within our Japanese insurance operations.
(2) Primarily includes derivatives and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 14 to the Consolidated Financial Statements.

Invested Assets of Other Entities and Operations

The following table sets forth the composition of the investments held outside the general account in other entities and operations as of the dates indicated.

	December 31, 2011	December 31, 2010
	(in millions)	
Fixed Maturities:		
Public, available-for-sale, at fair value	$ 2,026	$2,046
Private, available-for-sale, at fair value	82	75
Other trading account assets, at fair value	3,124	2,849
Equity securities, available-for-sale, at fair value	12	13
Commercial mortgage and other loans, at book value(1)	1,318	1,423
Other long-term investments	1,349	1,601
Short-term investments	2,984	435
Total investments	$10,895	$8,442

(1) Book value is generally based on unpaid principal balance net of any allowance for losses, the lower of cost or fair value, or fair value, depending on the loan.

The table above includes the invested assets of our trading, banking, and asset management operations. Assets of our asset management operations managed for third parties and those assets classified as "Separate account assets" on our balance sheet are not included.

Fixed Maturity Securities

Fixed maturity securities primarily include investments related to our non-retail banking operations, where customer deposit liabilities are primarily supported by fixed maturity and short-term investments, in addition to cash and cash equivalents.

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to our other entities and operations.

Fixed Maturity Securities—Invested Assets of Other Entities and Operations

	December 31, 2011						
	Lowest Rating Agency Rating						
Industry(1)	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total Fair Value
	(in millions)						
Residential Mortgage-Backed	$ 10	$ 979	$ 0	$ 6	$10	$1,005	$1,048
Asset-Backed Securities	214	42	1	17	31	305	315
Commercial Mortgage-Backed	123	48	0	15	6	192	197
Corporate Securities	28	53	219	140	0	440	474
U.S. Government	0	63	0	0	0	63	72
State & Municipal	0	0	1	0	0	1	1
Foreign Government	1	0	0	0	0	1	1
Total	$376	$1,185	$221	$178	$47	$2,007	$2,108

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

The table above includes the invested assets of our trading, banking, and asset management operations. Assets of our asset management operations managed for third parties and those assets classified as "Separate account assets" on our balance sheet are not included.

Other Trading Account Assets

Other trading account assets primarily include trading positions held by our derivatives trading operations used in a non-dealer capacity. The positions maintained by our derivatives trading operations are used to manage interest rate, currency, credit and equity exposures in our insurance, investment and international businesses, and treasury operations.

Less than $1 million of commercial mortgage-backed securities held outside the general account are classified as other trading account assets as of December 31, 2011, all of which have AAA credit ratings. An additional $31 million of asset-backed securities held outside the general account as of December 31, 2011 are classified as other trading account assets, and all have AAA credit ratings.

Commercial Mortgage and Other Loans

Our asset management operations include our commercial mortgage operations, which 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. 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 and December 31, 2010, the interim loans had an unpaid principal balance of $0.6 billion and $1.3 billion, respectively, and an allowance for losses or credit related market value losses totaling $44 million and $168 million, respectively. The weighted average loan-to-value ratio was 93% as of December 31, 2011 and 108% as of December 31, 2010, indicating that, in aggregate, the loan amount was reduced to below the collateral value during the year, and the weighted average debt service coverage ratio was 1.52 times as of December 31, 2011 and 1.24 times as of December 31, 2010. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. As of December 31, 2011, we also hold $44 million of commercial real estate held for sale related to foreclosed interim loans, which is reported in "Other long-term investments." The mortgage loans of our commercial mortgage operations are included in "Commercial mortgage and other loans," with related derivatives and other hedging instruments primarily included in "Other trading account assets" and "Other long-term investments."

Other Long-Term Investments

Other long-term investments primarily include strategic investments made as part of our asset management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. 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). As part of our asset management operations we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds.

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long term financial resources available to support the operation of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets and the alternate sources of liquidity and capital described herein.

Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our quarterly planning process. We believe that cash flows from the sources of funds presently available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and its subsidiaries, including reasonably foreseeable contingencies.

We continue to refine our metrics for capital management. These refinements to the current framework, which is primarily based on statutory risk based capital measures, are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company. In addition, we continue to use an economic capital framework for making certain business decisions.

Similar to our planning and management process for liquidity, we ensure the availability of adequate capital under reasonably foreseeable stress scenarios using our "Capital Protection Framework." We use our Capital Protection Framework to assess potential capital needs arising from severe market related distress and sources of capital available to us to meet those needs. Potential sources include on-balance sheet capital, derivatives and other contingent sources of capital.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, could result in the imposition of new capital, liquidity and other requirements on Prudential Financial and its subsidiaries. See "Business—Regulation" included in Prudential Financial's 2011 Annual Report on Form 10-K for information regarding the potential impact of the Dodd-Frank Act on the Company.

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

On February 1, 2011, we completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and certain other AIG subsidiaries. The total purchase price was approximately $4,709 million, comprising $4,213 million in cash and $496 million in the assumption of third-party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. To partially fund the acquisition purchase price, in November 2010, Prudential Financial completed a public offering and sale of 18,348,624 shares of Common Stock and $1.0 billion of medium-term notes, resulting in aggregate proceeds of approximately $2.0 billion. The remainder of the purchase price was funded with approximately $2.2 billion of cash and short-term investments.

Sale of the Global Commodities Business to Jefferies Group, Inc.

On July 1, 2011, we completed the sale of our Global Commodities Business to Jefferies Group, Inc., or Jefferies, and received cash proceeds of $422 million, which includes a final purchase price true-up of $2 million received post-closing on October 21, 2011. Of the total sale proceeds, $415 million was received by Prudential Securities Group LLC, a subsidiary of Prudential Insurance and the former parent company of the Global Commodities' U.S. and U.K. based entities. The remaining proceeds were received by Pramerica Hong Kong Holdings Limited, the former parent company of the Bache Hong Kong-based business. In addition, immediately prior to closing, Prudential Bache Commodities, LLC paid a dividend of $112 million to Prudential Securities Group. On September 30, 2011, Prudential Securities Group distributed $500 million to Prudential Insurance.

In the ordinary course of business, Prudential Financial provided guarantees of the obligations of the Global Commodities Business under commodity, financial and foreign exchange futures, swap and forward contracts. As of December 31, 2011, our exposure under these guarantees was approximately $99 million. We have agreed to keep these guarantees outstanding for a period of 18 months following the closing, including with respect to business conducted by the transferred entities with beneficiaries of these guarantees subsequent to the closing date. Jefferies has agreed to indemnify us for any amounts payable under the guarantees and, under certain conditions, to provide collateral for such obligation. In addition, to maintain continuity of funding for the Global Commodities Business, we provided a line of credit to certain of the transferred Global Commodities subsidiaries for a period of 90 days following the closing in an amount of up to $1 billion. This line of credit was paid off and terminated on September 16, 2011. In February 2012, we provided a $100 million unsecured loan to Jefferies for up to one year to provide funding for a temporary regulatory requirement relating to a transferred Global Commodities subsidiary.

Sale of Prudential Real Estate and Relocation Services to Brookfield Asset Management, Inc.

On December 6, 2011, we sold our real estate brokerage franchise and relocation services business to Brookfield Asset Management, Inc., and received cash proceeds, before transaction related expenses, of $108 million. Of the total sale proceeds, $91 million was received by Prudential Financial and the remaining proceeds were received by a related financing subsidiary that the Company continues to own. This financing subsidiary continues to hold debt and equity investments in a limited number of real estate brokerage franchises. In connection with the sale, we agreed to provide certain Brookfield affiliates with transitional financing for the transferred relocation services business pursuant to: 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. We expect to fund draws under these credit facilities using cash on hand or proceeds from the alternative sources of liquidity described below. As of December 31, 2011 the amounts drawn under the facilities were $157 million, $15 million and $72 million, respectively.

Liquidity and Capital Resources of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and interest income from its subsidiaries, and cash and short-term investments. These sources of funds may be supplemented by Prudential Financial's access to the capital markets and credit facilities, as well as the "—Alternative Sources of Liquidity" described below.

The primary uses of funds at Prudential Financial include servicing our debt, operating expenses, capital contributions and obligations to subsidiaries, and the payment of declared shareholder dividends, as well as repurchases of outstanding shares of Common Stock if executed under Board authority.

As of December 31, 2011, Prudential Financial had cash and short-term investments of $4,944 million, a decrease of $1,728 million from December 31, 2010, primarily resulting from funding a portion of the purchase price for the Star and Edison Businesses. Included in the cash and short-term investments of Prudential Financial is $1,407 million held in an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Also included are short-term investments of $1,098 million, consisting primarily of government agency securities and money market funds.

The following table sets forth Prudential Financial's principal sources and uses of cash and short-term investments for the period indicated.

	Year Ended December 31, 2011
	(in millions)
Sources:	
Dividends and/or returns of capital from subsidiaries(1)	$3,242
Proceeds from the issuance of long-term senior debt, net of repayments	1,157
Repayment of funding agreements from Prudential Insurance	468
Proceeds from stock-based compensation and exercise of stock options	270
Proceeds from sale of real estate and relocation business	91
Net receipts under intercompany loan agreements(2)	34
Proceeds from short-term debt, net of repayments	13
Total sources	5,275
Uses:	
Capital transactions to fund Star and Edison acquisition	2,922
Capital contributions to subsidiaries(3)	1,176
Share repurchases	999
Shareholder dividends	704
Net payment under external financing agreement(4)	244
Repayment of retail medium-term notes	154
Payment of income taxes	135
Other, net	669
Total uses	7,003
Net decrease in cash and short-term investments	$1,728

(1) Includes dividends and/or returns of capital of $1,592 million from Prudential Insurance, $478 million from international insurance and investment subsidiaries, $588 million from Prudential Annuities Life Assurance Corporation, $468 million from asset management subsidiaries and $116 million from other subsidiaries.

(2) Includes net repayments of $322 million by Prudential Securities Group (previously supporting the global commodities business), $282 million by Prudential Real Estate and Relocation, $169 million by our asset management subsidiaries, and $100 million by Prudential Arizona Reinsurance Term Company (previously funding statutory reserves required under Regulation XXX), partially offset by net borrowings of $336 million by Pruco Life Insurance Company. The remainder represents net borrowings by other subsidiaries as well as net activity in our intercompany liquidity account described above.

(3) Includes capital contributions of $1,005 million to international insurance and investment subsidiaries, $64 million to Pruco Reinsurance, $62 million to asset management subsidiaries and $45 million to an investment subsidiary.

(4) Represents payments under the transitional financing arrangements provided in connection with the sale of the real estate brokerage franchise and relocation business.

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 of our common stock 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 on market conditions and other considerations. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act. Numerous factors could affect the timing and amount of any future repurchases under the share repurchase program, including increased capital needs of our businesses due to opportunities for growth and acquisitions, as well as adverse market conditions.

On November 8, 2011, Prudential Financial's Board of Directors declared an annual dividend for 2011 of $1.45 per share of Common Stock, representing an increase of approximately 26 percent from the 2010 Common Stock dividend. The table below presents declaration, record, and payment dates, as well as per share and aggregate dividend amounts, for the Common Stock dividend for the last five years.

			Dividend Amount	
Declaration Date	Record Date	Payment Date	Per Share	Aggregate
			(in millions, except per share data)	
November 8, 2011	November 22, 2011	December 16, 2011	$1.45	$689
November 9, 2010	November 23, 2010	December 17, 2010	$1.15	$564
November 10, 2009	November 24, 2009	December 18, 2009	$0.70	$327
November 11, 2008	November 24, 2008	December 19, 2008	$0.58	$246
November 13, 2007	November 26, 2007	December 21, 2007	$1.15	$521

The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses (excluding accumulated other comprehensive income related to unrealized gains and losses on investments and pension/postretirement benefits), outstanding junior subordinated debt and outstanding capital debt of the Financial Services Businesses. Capital debt consists of borrowings that are used or will be used to meet the capital requirements of Prudential Financial, as well as borrowings invested in equity or debt securities of direct or indirect subsidiaries of Prudential Financial and subsidiary borrowings utilized for capital requirements. As shown in the table below, as of December 31, 2011, the Financial Services Businesses had $42.9 billion in capital, all of which was available to support the aggregate capital requirements of its three divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital was consistent with the "AA" ratings targets of our regulated operating entities as of December 31, 2011.

	December 31, 2011
	(in millions)
Attributed equity (excluding unrealized gains and losses on investments and pension/postretirement benefits)	$31,657
Junior subordinated debt (i.e. hybrid securities)	1,519
Capital debt	9,705
Total capital	$42,881

We seek to capitalize all of our subsidiaries and businesses in accordance with their ratings targets, and we believe Prudential Financial's capitalization and use of financial leverage are consistent with those ratings targets. Management uses the ratio of capital debt to total capital (as such amounts are reflected in the table above) as a primary measure of the use of financial leverage. As of December 31, 2011, our capital debt to total capital ratio was 25.3%. The terms of our outstanding junior subordinated debt have certain features that result in their treatment as hybrid securities by the rating agencies. As a result, for purposes of calculating the capital debt to total capital ratio, 25% of our outstanding junior subordinated debt is treated as equity and the remaining 75% is treated as capital debt, based on Moody's current criteria for these types of hybrid securities. As discussed under "—Accounting Policies & Pronouncements—Future Adoption of New Accounting Pronouncements," the Company adopted amended authoritative guidance regarding the deferral of costs relating to the acquisition of new or renewal insurance contracts effective January 1, 2012, and will apply retrospective method of adoption. We estimate that if the new guidance were adopted as of December 31, 2011, retrospective adoption would 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, resulting in a capital debt to total capital ratio of approximately 27% as of December 31, 2011.

Our long-term senior debt rating targets for Prudential Financial are "A" for Standard & Poor's Rating Services, or S&P, Moody's Investors Service, Inc., or Moody's, and Fitch Ratings Ltd., or Fitch, and "a" for A.M. Best Company, or A.M. Best. Our financial strength rating targets for our domestic life insurance companies are "AA/Aa/AA" for S&P, Moody's and Fitch, respectively, and "A+" for A.M. Best. Currently, some of our ratings are below these targets. For a description of material rating actions that have occurred from the beginning of 2011 through February 24, 2012 and a discussion of the potential impacts of ratings downgrades, see "—Ratings."

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance and various other companies are subject to regulatory limitations on the payment of dividends and other transfers of funds to affiliates. With respect to Prudential Insurance, New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or other distributions paid by Prudential Insurance may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2011 and 2010, Prudential Insurance's unassigned surplus was $5,070 million and $4,224 million, respectively, and it recorded applicable adjustments for cumulative unrealized investment gains of $2,184 million and $1,499 million, respectively. Prudential Insurance must give prior notification to the New Jersey Department of Banking and Insurance, or NJDOBI, or the Department, of its intent to pay any dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the prior calendar year's statutory surplus or (ii) the prior calendar year's statutory net gain from operations excluding realized investment gains and losses, the dividend is considered to be an "extraordinary dividend" and the prior approval of the Department is required for payment of the dividend. Prudential Insurance's statutory surplus as of December 31, 2011 was $8,160 million and its statutory net gain from operations, excluding realized investment gains and losses, for the year ended December 31, 2011 was $584 million. In addition to the 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 certain other circumstances. The laws regulating dividends of the other states and foreign jurisdictions where our other insurance companies are domiciled are similar, but not identical, to New Jersey's.

On May 16, 2011, Prudential Insurance paid an ordinary dividend of $527 million and an extraordinary dividend of $704 million to its parent, Prudential Holdings, LLC. From this amount, Prudential Holdings paid dividends to Prudential Financial of $1,073 million in May 2011 and $19 million in December 2011. On November 18, 2011, Prudential Insurance paid an additional extraordinary dividend of $500 million to Prudential Holdings, all of which was ultimately paid to Prudential Financial. Prudential Annuities Life Assurance Corporation paid a $270 million extraordinary dividend on June 30, 2011 and a $318 million ordinary dividend on November 30, 2011, in each case to Prudential Financial. On December 2, 2011, Prudential Retirement Insurance and Annuity Company paid an ordinary dividend of $270 million and an extraordinary dividend of $105 million to its parent, Prudential Insurance.

On September 20, 2011, Prudential of Japan paid a dividend of ¥16 billion, or $208 million, to its parent, Prudential Holdings of Japan, of which $190 million was ultimately paid to Prudential Financial.

As a result of Gibraltar Life's reorganization in 2001, in addition to regulatory requirements, certain other restrictions precluded Gibraltar Life from paying common stock dividends to Prudential Financial. We anticipate that following the merger of Gibraltar, Star and Edison, the merged entity will be able to pay common stock dividends to Prudential Financial, subject to legal and regulatory restrictions.

However, we do not anticipate receiving dividends from the merged entity for several years as it may return capital to Prudential Financial through other means, such as the repayment of subordinated debt or preferred stock obligations held by Prudential Financial or other affiliates. In August 2011, Gibraltar Life repaid ¥24 billion, or $313 million, of subordinated debt held by an intermediate holding company, of which $119 million was used to repay a loan from Prudential Insurance and the remainder was paid to Prudential Financial.

The ability of our asset management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint but can be affected by market conditions and other factors.

See "Liquidity and Capital Resources of Our Subsidiaries" below for additional details on the liquidity of our domestic insurance subsidiaries, international insurance subsidiaries and asset management subsidiaries.

Alternative Sources of Liquidity

Prudential Financial maintains an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its affiliates on a daily basis. Depending on the overall availability of cash, Prudential Financial invests excess cash on a short-term basis or borrows funds in the capital markets. Additional longer term liquidity is available through inter-affiliate borrowing arrangements. Prudential Financial and certain of its subsidiaries also have access to bank facilities, as discussed under "—Credit Facilities," as well as the alternative sources of liquidity described below.

Commercial Paper Programs

Prudential Financial and Prudential Funding, LLC, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, have commercial paper programs with an authorized issuance capacity of $3.0 billion and $7.0 billion, respectively. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of our subsidiaries. Prudential Funding commercial paper borrowings have generally served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the NJDOBI.

While we continue to consider commercial paper one of our alternative sources of liquidity due to the low cost and efficient financing it provides, over the past several years we have significantly reduced our reliance on commercial paper to fund our operations, and have developed plans that would enable us to further reduce, or if necessary eliminate, our commercial paper borrowings by accessing other sources of liquidity.

The following table sets forth Prudential Financial's and Prudential Funding's outstanding commercial paper borrowings as of the dates indicated.

	December 31,	
	2011	2010
	(in millions)	
Prudential Financial	$ 296	$ 283
Prudential Funding	870	874
Total outstanding commercial paper borrowings(1)(2)	$1,166	$1,157
Portion of above borrowings that were due overnight	$ 545	$ 309
Weighted average maturity of outstanding commercial paper, in days	21	34

(1) The daily average commercial paper outstanding under these programs during 2011 and 2010 was $1,368 million and $1,208 million, respectively.
(2) The weighted average interest rate on borrowings for the years ended December 31, 2011 and 2010 was 0.37 % and 0.42%, respectively, for Prudential Financial and 0.20 % and 0.31%, respectively, for Prudential Funding.

Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's positive tangible net worth at all times. Prudential Financial has also issued a subordinated guarantee covering Prudential Funding's commercial paper program.

As of December 31, 2011, Prudential Financial and Prudential Funding had unsecured committed lines of credit totaling $3.75 billion. These facilities can be used as backup liquidity for our commercial paper programs or for other general corporate purposes. There were no outstanding borrowings under these facilities as of December 31, 2011 or as of February 24, 2012. For a further description of these lines of credit, see "—Credit Facilities."

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, in order to earn spread income, to borrow funds, or to facilitate trading activity. These programs are driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our domestic insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments and fixed maturities, including mortgage- and asset-backed securities, with a weighted average life at time of purchase of two years or less. A portion of the asset-backed securities held in our short-term spread portfolios, including our enhanced short-term portfolio, are collateralized by sub-prime mortgages. Floating rate assets comprise the majority of our short-term spread portfolio. See "—Realized Investment Gains and Losses and General Account Investments—General Account Investments—Fixed Maturity Securities" for a further discussion of our asset-backed securities collateralized by sub-prime holdings, including details regarding those securities held in our enhanced short-term portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

	December 31, 2011			December 31, 2010		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
	(in millions)					
Securities sold under agreements to repurchase	$3,118	$3,100	$6,218	$2,557	$3,328	$5,885
Cash collateral for loaned securities	2,254	719	2,973	1,614	557	2,171
Securities sold but not yet purchased	5	0	5	1	0	1
Total(1)	$5,377	$3,819	$9,196	$4,172	$3,885	$8,057
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	$3,438	$2,012	$5,450	$2,581	$2,446	$5,027
Weighted average maturity, in days(2)	62	72		14	24	

(1) The daily weighted average outstanding during 2011 and 2010 was $4,651 million and $4,678 million, respectively, for the Financial Services Businesses and $4,301 million and $3,969 million, respectively, for the Closed Block Business.
(2) Excludes securities that may be returned to the Company overnight.

In addition, as of December 31, 2011, our Closed Block Business had outstanding mortgage dollar rolls under which we are committed to repurchase $860 million of mortgage-backed securities, or “to be announced” (“TBA”) forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

As of December 31, 2011, our domestic insurance entities had assets eligible for the securities lending program of $81.4 billion, of which $8.9 billion were on loan. Taking into account market conditions and outstanding loan balances as of December 31, 2011, we believe approximately $28.3 billion of the remaining eligible assets are readily lendable, of which approximately $19.0 billion relates to the Financial Services Businesses; however, these amounts are subject to potential regulatory constraints and to changes in market conditions.

As referenced above, these programs are typically limited to securities in demand that can be loaned at relatively low financing rates. As such, we believe there is unused capacity available through these programs. Holdings of cash and cash equivalent investments in these short-term spread portfolios allow for further flexibility in sizing the portfolio to better match available financing. Current conditions in both the financing and investment markets are continuously monitored in order to appropriately manage the cost of funds, investment spreads, asset/liability duration matching and liquidity.

Federal Home Loan Bank of New York

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

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

As of December 31, 2011, we had pledged qualifying assets with a fair value of $2.8 billion, which supported outstanding collateralized advances of $0.9 billion and collateralized funding agreements of $1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $5.6 billion as of December 31, 2011.

As of December 31, 2011, $199 million of the FHLBNY outstanding advances is reflected in “Short-term debt” and matures in December 2012 and the remaining $725 million is in “Long-term debt” and matures in December 2015. As of December 31, 2011, $650 million of these proceeds were used to support the operating needs of our businesses and $274 million were used to purchase investments, including the FHLBNY activity-based stock. The funding agreements issued to the FHLBNY, which are reflected in “Policyholders’ account balances,” have priority claim status above debt holders of Prudential Insurance. These funding agreements currently serve as a substitute funding source for a product of our Retirement segment, which earns investment spread that was previously funded by retail medium-term notes issued by Prudential Financial.

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company, or PRIAC, is a member of the Federal Home Loan Bank of Boston, or FHLBB. Membership allows PRIAC access to collateralized advances which will be classified in "Short-term debt" or "Long-term debt," depending on the maturity date of the obligation. PRIAC's membership in FHLBB requires the ownership of member stock, and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. As of December 31, 2011, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to $2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of December 31, 2011, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately $1.2 billion.

Liquidity and Capital Resources of Our Subsidiaries

Domestic Insurance Subsidiaries

General Liquidity

We manage the liquidity of our domestic insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. The investment portfolios of our domestic operations are integral to the overall liquidity of those operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities. We use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims. The impact of Prudential Funding's financing capacity on liquidity, as discussed more fully under "—Alternative Sources of Liquidity," is considered in the internal liquidity measures of the domestic insurance operations.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. The results are affected substantially by the overall asset type and quality of our investments.

Cash Flow

The principal sources of liquidity for Prudential Insurance and our other domestic insurance subsidiaries are premiums and certain annuity considerations, investment and fee income, and investment maturities and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims, dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, and payments in connection with financing activities.

We believe that the cash flows from our insurance and annuity operations are adequate to satisfy the current liquidity requirements of these operations, including under reasonably foreseeable stress scenarios. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, and the relative safety of competing products, each of which could lead to reduced cash inflows or increased cash outflows. In addition, market volatility can impact the level of capital required to support our businesses, particularly in our annuity business. Our domestic insurance operations' cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties' willingness to extend repurchase and/or securities lending arrangements, commitments to invest and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

In managing the liquidity of our domestic insurance operations, we also consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers from annuity contracts and deposit liabilities. The following table sets forth withdrawal characteristics of our general account annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2011		December 31, 2010	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Not subject to discretionary withdrawal provisions	$38,896	47%	$37,505	47%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	22,211	27	21,105	26
At market value	2,208	3	1,876	2
At contract value, less surrender charge of 5% or more	2,036	2	2,471	3
Subtotal	65,351	79	62,957	78
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	17,760	21	17,404	22
Total annuity reserves and deposit liabilities	$83,111	100%	$80,361	100%

Individual life insurance policies are less susceptible to withdrawal than our annuity reserves and deposit liabilities because policyholders may incur surrender charges and be subject to a new underwriting process in order to obtain a new insurance policy. Our annuity reserves with guarantee features may be less susceptible to withdrawal than historical experience indicates, due to the perceived value of these guarantee features to policyholders as a result of market declines in recent years. Annuity benefits and guaranteed investment withdrawals under group annuity contracts are generally not subject to early withdrawal. Gross account withdrawals for our domestic insurance operations' products were consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our overall liquidity.

Liquid Assets

Liquid assets include cash, cash equivalents, short-term investments, fixed maturities that are not designated as held-to-maturity and public equity securities. As of December 31, 2011 and 2010, our domestic insurance operations had liquid assets of $144.8 billion and $138.5 billion, respectively, which includes a portion financed with asset-based financing. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was $6.6 billion and $5.8 billion as of December 31, 2011 and 2010, respectively. As of December 31, 2011, $124.6 billion, or 92.4%, of the fixed maturity investments that are not designated as held-to-maturity within our domestic insurance company general account portfolios were considered high or highest quality based on NAIC or equivalent rating. The remaining $10.3 billion, or 7.6%, of these fixed maturity investments were considered other than high or highest quality based on NAIC or equivalent rating. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate the adequacy of our domestic insurance operations' liquidity under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy current liquidity requirements, including under reasonably foreseeable stress scenarios.

Given the size and liquidity profile of our investment portfolios, we believe that claim experience varying from our projections does not constitute a significant liquidity risk. Our asset/liability management process takes into account the expected maturity of investments and expected claim payments as well as the specific nature and risk profile of the liabilities. Historically, there has been no significant variation between the expected maturities of our investments and the payment of claims.

Our domestic insurance companies' liquidity is managed through access to substantial investment portfolios as well as a variety of instruments available for funding and/or managing cash flow mismatches, including from time to time those arising from claim levels in excess of projections. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in increased borrowing costs or realized investment gains or losses affecting results of operations. For a further discussion of realized investment gains and losses, see "—Realized Investment Gains and Losses and General Account Investments—Realized Investment Gains and Losses." We believe that borrowing temporarily or selling investments earlier than anticipated will not have a material impact on the liquidity of our domestic insurance companies. Payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating, investing, and financing activities, respectively, in our financial statements. Instead of selling investments at depressed market prices externally, in order to preserve economic value (including tax attributes), we may also sell investments from one subsidiary to another at fair market value or transfer investments internally between businesses within the same subsidiary, subject to applicable regulatory constraints.

Capital

The Risk Based Capital, or RBC, ratio is a primary measure by which we 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's and our other domestic life insurance subsidiaries' RBC ratios to a level consistent with their ratings targets. RBC is determined by statutory guidelines and formulas that consider, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of an insurer's statutory capitalization. As of December 31, 2011, the RBC ratio for Prudential Insurance was approximately 490%, which exceeded the minimum levels required by applicable insurance regulations. In addition, all of our other domestic life insurance subsidiaries have RBC ratios that exceed the minimum level required by applicable insurance regulations. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities.

The level of statutory capital of our domestic life insurance subsidiaries can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded and credit quality migration of the investment portfolio, among other items. Further, the recapture of business subject to reinsurance arrangements due to defaults by, or credit quality migration affecting, the reinsurers could result in higher required statutory capital levels. The level of statutory capital of our domestic life insurance subsidiaries is also affected by statutory accounting rules, which are subject to change by insurance regulators.

During 2010, as part of our Capital Protection Framework, we developed a broad view of the impact of market distress on the statutory capital of the Company. Beginning in the second quarter of 2010, we have entered into equity index-linked derivative transactions that are designed to mitigate the impact of a severe equity market stress event on statutory capital. The program focuses on tail risk to protect our capital in a cost-effective manner under stress scenarios. 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.

In addition to hedging equity market exposure, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefits hedging program, we purchase interest rate derivatives and 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. 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-perceived risk of our own non-performance, 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 determining the hedge target. Our new hedge target 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 assumptions 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 evaluate hedge levels versus our hedge target based on the overall capital considerations of the Company and prevailing market conditions. The U.S. GAAP/capital markets valuation framework underlying our hedge target assumes that current interest rate levels remain unchanged 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 the hedging decision was based on the overall capital considerations of the Company, the corresponding impact on results is reported within Corporate and Other operations. For the years ended December 31, 2011 and 2010, "Realized investment gains (losses), net, and related adjustments" within Corporate and Other operations includes a pre-tax loss of $1,662 million and a pre-tax gain of $306 million, respectively, resulting from our decision to temporarily hedge to a different target and the decline in interest rates during the year. 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 activities such as the after-tax realized investment losses incurred in 2011 from our living benefits hedging program, including our decision to temporarily hedge to an amount that differs from our hedge target definition. For a full discussion of the results of our living benefits hedging program, see "—Results of Operations for Financial Services Businesses by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

We reinsure variable annuity living benefit guarantees from certain of our life insurance companies to a captive reinsurance company, Pruco Reinsurance, Ltd. ("Pruco Re"). The variable annuity living benefit hedging program described above is primarily executed within Pruco Re. Effective as of July 1, 2011, Pruco Re re-domiciled from Bermuda to Arizona. As a result, beginning in the third quarter of 2011, our Arizona domiciled life insurance company, Pruco Life Insurance Company, is able to claim reinsurance reserve credit for business ceded to Pruco Re without any need for Pruco Re to collateralize its obligations under the reinsurance arrangement. However, for business ceded to Pruco Re by Prudential Annuities Life Assurance Corporation ("PALAC") and Pruco Life Insurance Company of New Jersey ("PLNJ"), we must continue to collateralize Pruco Re's obligations under the reinsurance arrangement in order for PALAC and PLNJ to claim reinsurance reserve credit for their business ceded. We satisfy this requirement by depositing assets into statutory reserve credit trusts for Pruco Re. Funding needs for the statutory reserve credit trusts are separate and distinct from the capital needs of the captive reinsurance company. However, assets pledged to the statutory reserve credit trusts may include assets supporting the capital of the captive reinsurance company provided that they meet eligibility requirements prescribed by the relevant insurance regulators.

Reinsurance credit reserve requirements can move materially in either direction due to changes in equity markets and interest rates, actuarial assumptions and other factors. Higher reinsurance credit reserve requirements would necessitate depositing additional assets in the statutory reserve credit trusts, while lower reinsurance credit reserve requirements would allow assets to be removed from the statutory reserve credit trusts. Lower interest rates in 2011 led to an increase in our need to fund the captive reinsurance trusts by an amount of $569 million for the year ended December 31, 2011, primarily relating to business sold by PALAC and PLNJ. We satisfied the overall increase in funding requirements in 2011 with available cash and by re-hypothecating assets into the trust that were otherwise pledged by our affiliates under hedging positions related to our living benefit features.

In October 2011, we established a new reinsurance arrangement with our captive reinsurance company domiciled in New Jersey, whereby the New Jersey captive reinsures 90% of the short-term risks under the policies in Prudential Insurance's Closed Block. These short-term risks represent the impact of variations in experience of the Closed Block that are expected to be recovered over time as a result of corresponding adjustments to policyholder dividends. The new reinsurance arrangement is intended to alleviate the short-term surplus volatility within Prudential Insurance resulting from the Closed Block, including volatility caused by the impact of any unrealized mark-to-market losses or realized credit losses within the investment portfolio of the Closed Block.

In connection with the new Closed Block reinsurance arrangement, we entered into a $2 billion letter of credit facility with certain financial institutions, pursuant to which the New Jersey captive can obtain a letter of credit during a 3-year availability period to support its funding obligations under the reinsurance arrangement. Prudential Financial guarantees all obligations of the New Jersey captive under the facility, including its obligation to reimburse any draws made under the letter of credit. Because experience of the Closed Block is ultimately passed along to policyholders over time through the annual policyholder dividend, we believe that any draw under the letter of credit is unlikely. Our ability to obtain a letter of credit under the facility is subject to the continued satisfaction of customary conditions, including the maintenance at all times by Prudential Insurance of total adjusted capital of at least $5.5 billion based on statutory accounting principles prescribed under New Jersey law and Prudential Financial's maintenance of consolidated net worth of at least $19.0 billion, based on U.S. GAAP stockholders' equity, excluding "Accumulated other comprehensive income (loss)."

International Insurance and Investments Subsidiaries

On February 1, 2011, we completed our acquisition of the Star and Edison Businesses. Gibraltar Life and Prudential of Japan each contributed $400 million to payment of the acquisition purchase price, with the remaining funding provided by Prudential Financial and other subsidiaries. Although these contributions reduced local solvency margin ratios in Gibraltar and Prudential of Japan, the solvency margins for these companies remain in excess of our targets. The contributions did not materially impact Gibraltar Life's or Prudential of Japan's liquidity as their investment portfolios were positioned to provide the funding.

Star and Edison solvency margin ratios at acquisition were in excess of our solvency margin targets and will continue to be managed to capitalization levels consistent with our "AA" ratings targets. We believe the liquidity profiles of Star and Edison are sufficient to meet their obligations, including under reasonably foreseeable stress scenarios. Since completing the acquisition, we have further enhanced the capital profile of Star and Edison by repositioning their asset portfolios to reduce risk and establish an asset profile similar to Gibraltar's. We substantially completed this repositioning by year-end 2011.

Effective January 1, 2012, the Star and Edison entities merged with Gibraltar Life. We believe the solvency margin ratio of the merged entity will continue to be in excess of our solvency margin targets.

In our international insurance operations, liquidity is provided through operating cash flows from ongoing operations as well as portfolios of liquid assets. In managing the liquidity and the interest rate and credit risk profiles of our international insurance portfolios, we employ a discipline similar to the discipline employed for domestic insurance subsidiaries. We monitor liquidity through the use of internal liquidity measures, taking into account the liquidity of the asset portfolios. We also consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate the adequacy of our international insurance operations' liquidity under stress scenarios. We believe that ongoing operations and the liquidity profile of our international insurance assets provide sufficient liquidity under reasonably foreseeable stress scenarios.

The following table sets forth our international insurance subsidiaries portfolio of liquid assets, including cash and short-term investments, and fixed maturity investments, other than those designated as held-to-maturity, by NAIC or equivalent rating as of the dates indicated.

	December 31, 2011					
	Prudential of Japan	Gibraltar Life	Star and Edison Businesses	All Other(1)	Total	December 31, 2010
	(in billions)					
Cash and short-term investments	$ 1.1	$ 2.4	$ 1.7	$0.2	$ 5.4	$ 2.7
Fixed maturity investments:						
High or highest quality(2)	28.8	43.3	39.5	8.4	120.0	68.2
Other than high or highest quality	0.3	0.8	0.8	0.1	2.0	1.0
Subtotal	29.1	44.1	40.3	8.5	122.0	69.2
Total	$30.2	$46.5	$42.0	$8.7	$127.4	$71.9

(1) Represents our international insurance operations, excluding Japan.
(2) Of the $120 billion of fixed maturity investments that are not designated as held-to-maturity and considered high or highest quality as of December 31, 2011, $77.5 billion, or 65%, were invested in government or government agency bonds.

As with our domestic operations, in managing the liquidity of these operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. The following table sets forth the total general account insurance-related liabilities (other than dividends payable to policyholders) of our international insurance subsidiaries, as of the dates indicated.

	December 31,	
	2011	2010
	(in billions)	
Prudential of Japan(1)	$ 36.6	$32.2
Gibraltar Life	51.9	42.1
Star and Edison Businesses	44.7	0.0
All other international insurance subsidiaries(2)	8.6	10.1
Total general account insurance-related liabilities (other than dividends payable to policyholders)	$141.8	$84.4

(1) As of December 31, 2011 and 2010, $4.5 billion and $3.5 billion, respectively, of the insurance-related liabilities for Prudential of Japan are associated with U.S. dollar-denominated products that are coinsured to our U.S. domiciled insurance operations and supported by U.S. dollar-denominated assets.
(2) Represents our international insurance operations, excluding Japan.

Our Japanese operations did not have a material amount of general account annuity reserves or deposit liabilities subject to discretionary withdrawal as of December 31, 2011 and 2010. Additionally, we believe that the individual life insurance policies sold by our Japanese operations do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process in order to obtain a new insurance policy.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin requirements for insurance companies. All of our international insurance subsidiaries have solvency margins in excess of the minimum levels required by the applicable regulatory authorities. These solvency margins are also a primary measure by which we evaluate the capital adequacy of our international insurance operations. We manage these solvency margins to a capitalization level consistent with our "AA" ratings target. Maintenance of our solvency ratios at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer's financial strength.

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 will be effective for the fiscal year ending March 31, 2012. The following table depicts the solvency margins of our Japanese insurance subsidiaries under the old method as of March 31, 2011 and 2010 and under the new method as of March 31, 2011.

	"New Method"	"Old Method"	
	March 31, 2011	March 31, 2011	March 31, 2010
Prudential of Japan	703%	1,134%	1,263%
Gibraltar Life	657%	1,120%	1,136%
Star	979%	1,779%	N/A
Edison	771%	1,363%	N/A

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 positioning. The capital requirements in Korea and Taiwan are also undergoing change. Korean insurance regulators have refined their RBC calculation effective June 2011 with the most significant change related to the interest rate risk charge. The RBC ratio for Prudential of Korea, or POK, will be lower under the new calculation reflective of the long duration of its liabilities and high policy persistency. Nevertheless, we expect that POK's RBC ratio under the new calculation will remain one of the highest in the industry and will continue to exceed a level consistent with our "AA" ratings target. Additionally, Taiwanese regulators recently made slight refinements to their RBC calculation effective as of January 2011. The new calculation resulted in a modest increase in the interest rate risk charge and resulted in only a slight decline in Prudential of Taiwan's RBC ratio with no expected corresponding competitive impact.

On March 11, 2011, Japan experienced a massive earthquake followed by a tsunami which caused extensive damage and loss of life. We estimate that the impact of claims as a result of these events will not have a material impact on the capital and liquidity positions of our operating companies. In addition, 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.

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, including the strategies discussed in "—Results of Operations for Financial Services Businesses by Segment—International Insurance Division." These hedging strategies include both internal and external hedging programs.

The internal hedges are between a subsidiary of Prudential Financial and certain of our yen-based entities and serve to hedge the value of U.S. dollar-denominated investments held on the books of these yen-based entities. A portion of these U.S. dollar-denominated investments are part of our hedging strategy to mitigate the impact of foreign currency exchange rate movements on our U.S. dollar-equivalent investment in our Japanese subsidiaries. Absent an internal hedge, the changes in market value of these U.S. dollar-denominated investments attributable to changes in the yen-dollar exchange rate would create volatility in the solvency margins of these subsidiaries. In order to minimize this volatility, we enter into inter-company hedges. Cash settlements from these hedging activities result in cash flows between Prudential Financial and these yen-based subsidiaries. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During 2011, Prudential Financial funded $306 million of cash settlements related to the internal hedge program, which were paid to the yen-based subsidiaries. As of December 31, 2011, the market value of the internal hedges was a liability of $1,244 million owed to the yen-based subsidiaries of Prudential Financial. Absent any changes in forward exchange rates from those expected as of December 31, 2011, the $1,244 million internal hedge liability represents the present value of the net cash flows from Prudential Financial to these entities over the life of the hedging instruments, up to 30 years, and would require additional liquidity and capital to fund contributions from Prudential Financial to our subsidiaries. A significant yen appreciation over an extended period of time, and in excess of the forward exchange rates, would result in higher capital and liquidity needs to fund the net cash outflows from Prudential Financial.

Our external hedges primarily serve to hedge most of the foreign-denominated future income of our foreign subsidiaries and the equity investments in certain of these subsidiaries. The external hedges are between a subsidiary of Prudential Financial and external parties. Cash settlements on these activities result in cash flows between Prudential Financial and the external parties and are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During 2011, Prudential Financial paid $96 million of net cash flows for international insurance-related external hedge settlements. As of December 31, 2011, the net liability related to external foreign currency hedges was $677 million. A significant appreciation in yen and other foreign currencies could result in net cash outflows in excess of our liability. During 2009 and 2010, we terminated our hedges of the U.S. GAAP equity exposure of all 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.

In our international investments operations, liquidity is provided through asset management fees as well as commission revenue. The principal uses of liquidity include general and administrative expenses and distributions of dividends and returns of capital. As with our domestic operations, the primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe cash flows from our international investments subsidiaries are adequate to satisfy the current liquidity requirements of their operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

On July 1, 2011, we completed the sale of our Global Commodities Business to Jefferies Group, Inc. for cash proceeds of $422 million. For more information regarding the transaction, see "—Sale of the Global Commodities Business to Jefferies Group, Inc." above.

On December 2, 2011, we completed the sale of our 50% stake in Afore XXI, a private pension fund manager in Mexico, to Grupo Financiero Banorte SA for $200 million.

Asset Management Subsidiaries

Our asset management businesses, which include real estate, public and private fixed income and public equity asset management, as well as commercial mortgage origination and servicing, and retail investment products, such as mutual funds and other retail services, are largely unregulated from the standpoint of dividends and distributions. Our asset management subsidiaries through which we conduct these businesses generally do not have restrictions on the amount of distributions they can make, and the fee-based asset management business can provide a relatively stable source of cash flow to Prudential Financial.

The principal sources of liquidity for our fee-based asset management businesses include asset management fees and commercial mortgage servicing fees. The principal uses of liquidity include general and administrative expenses and distribution of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe the cash flows from our fee-based asset management businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our strategic investments and interim loans held in our asset management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Funding and Prudential Financial. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults.

In April 2009, our commercial mortgage origination and servicing business received approval to participate in a Fannie Mae alternative delivery program known as ASAP Plus ("As Soon as Pooled" delivery). Our approval limit for outstanding balances on ASAP Plus is presently $150 million. This program allows us to assign a qualified Fannie Mae loan trade commitment to Fannie Mae as early as the next business day after a loan closes, and receive 99% of the loan purchase price from Fannie Mae. The program does not eliminate the need to provide temporary warehouse financing, but does significantly reduce the duration of funding requirements for eligible Fannie Mae originated loans from the normal delivery cycle of two to four weeks down to as little as one to two days. There was no balance outstanding on this program as of December 31, 2011.

Certain real estate funds under management are held for the benefit of clients in insurance company separate accounts sponsored by Prudential Insurance. In the normal course of business, Prudential Insurance, on behalf of these separate accounts, may contractually agree to various funding commitments which may include, among other things, commitments to purchase real estate, to invest in real estate partnerships (both existing and to-be-formed) to acquire or develop real estate, and/or to fund additional construction or other expenditures on previously-acquired real estate investments. Certain commitments to purchase real estate are contingent on the developer's development of the property according to plans and specifications outlined in a pre-sale agreement or the completed property achieving a certain level of leasing. These contractual commitments are typically entered into by Prudential Insurance on behalf of the particular separate account. Real estate investments that are acquired for a separate account are titled either in the name of Prudential Insurance or an LLC subsidiary specifically formed to hold title. In certain cases, the commitments specify that Prudential Insurance's recourse liability for the obligation is limited to the assets of the separate account.

At December 31, 2011 and 2010, total outstanding purchase commitments related to such separate account activity were $3.4 billion and $5.3 billion, respectively, which amounts include both off- and on-balance sheet commitments. The decrease in total outstanding purchase commitments during the last twelve months was primarily driven by the satisfaction of outstanding debt commitments, which were funded from investor capital contributions and property sales. The following is a summary of the outstanding purchase commitments for these separate account portfolios as of December 31, 2011. Off-balance sheet commitments include capital commitments and commitments with respect to properties that have not yet substantially satisfied pre-conditions and are considered contingent liabilities. On-balance sheet commitments represent obligations which have substantially satisfied conditions to funding of the commitments.

	Contractual Maturity Date			
	2012	**2013**	**After 2013**	**Total**
	(in millions)			
Off-Balance Sheet Commitments:				
Recourse to Prudential Insurance	$ 380	$ 17	$ 0	$ 397
Recourse limited to assets of separate accounts	525	196	0	721
Total Off-Balance Sheet Commitments	905	213	0	1,118
On-Balance Sheet Commitments:				
Recourse to Prudential Insurance	701	0	17	718
Recourse limited to assets of separate accounts	1,337	188	18	1,543
Total On-Balance Sheet Commitments	2,038	188	35	2,261
Total Commitments	$2,943	$401	$35	$3,379

The contractual maturity dates of some of the outstanding purchase commitments may accelerate upon a failure to maintain required loan-to-value ratios, failure of Prudential Insurance to maintain required ratings or failure to satisfy other financial covenants.

Some separate accounts have also entered into syndicated credit facilities providing for borrowings in the aggregate amount of up to $0.8 billion. As of December 31, 2011, there were no outstanding borrowings under these credit facilities. These facilities also include loan-to-value ratio requirements and other financial covenants. Recourse on obligations under these facilities is limited to the assets of the applicable separate account. As of December 31, 2011, these separate account portfolios had combined gross and net asset values of $28 billion and $17 billion, respectively.

At the time of maturity of a funding commitment, Prudential Insurance often endeavors to negotiate extensions, refinancings, or other solutions with counterparties. Management believes that the separate accounts have sufficient resources to ultimately meet their obligations. However, there is a risk that the separate accounts may not be able to timely fund all maturing obligations from regular sources such as asset sales, operating cash flow, deposits from clients, debt refinancings or from the above-mentioned portfolio level credit facilities. In cases where the separate account is not able to fund maturing obligations, Prudential Insurance may be called upon or required to provide interim funding solutions. To date, Prudential Insurance has not been required to provide any such funding.

As of December 31, 2011 and 2010, our asset management subsidiaries had cash and cash equivalents and short-term investments of $1.3 billion and $0.8 billion, respectively.

Financing Activities

Prudential Financial maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a "Well-Known Seasoned Issuer" under SEC rules, Prudential Financial's shelf registration statement provides for automatic effectiveness upon filing, pay-as-you-go fees and the ability to add securities by filing automatically effective amendments. Also, in accordance with these rules, the shelf registration statement has no stated issuance capacity.

As of December 31, 2011 and 2010, total short- and long-term debt of the Company on a consolidated basis was $27.0 billion and $25.6 billion, respectively, which as shown below, includes $18.6 billion and $17.6 billion, respectively, related to the parent company, Prudential Financial.

Prudential Financial Borrowings

Prudential Financial is authorized to borrow funds from various sources to meet its capital and other funding needs, as well as the capital and other funding needs of its subsidiaries. The following table sets forth the outstanding short- and long-term debt of Prudential Financial, other than debt issued to consolidated subsidiaries, as of the dates indicated.

	December 31, 2011	December 31, 2010
	(in millions)	
Borrowings:		
General obligation short-term debt:		
Commercial paper	$ 296	$ 283
Current portion of long-term debt	956	486
Total general obligation short-term debt	1,252	769
General obligation long-term debt:		
Senior debt	13,236	12,654
Junior subordinated debt (hybrid securities)	1,519	1,519
Retail medium-term notes	2,545	2,668
Total general obligation long-term debt	17,300	16,841
Total borrowings	$18,552	$17,610

The following table presents, as of December 31, 2011, the contractual maturities of Prudential Financial's general obligation long-term debt.

Calendar Year	Senior Debt	Junior Subordinated Debt	Retail Medium-Term Notes
		(in millions)	
2013	$ 1,581	$ 0	$ 165
2014	1,473	0	80
2015	2,148	0	81
2016	750	0	26
2017 and thereafter	7,284	1,519	2,193
Total	$13,236	$1,519	$2,545

Prudential Financial maintains a Medium-Term Notes, Series D program under its shelf registration statement with an authorized issuance capacity of $20 billion, of which as of December 31, 2011 approximately $8.3 billion remained available. On May 12, 2011 Prudential Financial issued $500 million of 3.0% notes due May 2016 and $300 million of 5.625% notes due May 2041 under the Medium-Term Notes, Series D program, proceeds from which were used to fund operating loans to our businesses and for other general corporate purposes. On November 16, 2011, Prudential Financial issued $400 million of 4.5% notes due November 2021 and $325 million of 5.8% notes due November 2041, the majority of the proceeds from which will be used to refinance maturing capital debt. The weighted average interest rates on Prudential Financial's medium-term and senior notes, including the effect of interest rate hedging activity, were 5.24% and 5.21% for the years ended December 31, 2011 and 2010, respectively, excluding the effect of debt issued to consolidated subsidiaries.

Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of $5.0 billion, of which as of December 31, 2011 approximately $2.9 billion remained available. The retail medium-term notes program traditionally has served as a funding source for a product of our Retirement segment for which we earn investment spread; however, the program can also be used for general corporate purposes. Beginning in 2009, we began using a portion of the proceeds from outstanding retail medium-term notes for general corporate purposes and used funding agreements issued to the FHLBNY as a substitute funding source for the asset portfolio within the Retirement segment, as discussed in "—Prudential Financial—Alternative Sources of Liquidity—Federal Home Loan Bank of New York." The weighted average interest rates on Prudential Financial's retail medium-term notes were 5.89% and 5.74% for the years ended December 31, 2011 and 2010, respectively, excluding the effect of debt issued to consolidated subsidiaries. A decline in demand by retail investors and an increase in borrowing costs versus historical levels have resulted in a halt in new issuances under the retail medium-term notes program. However, if the capital markets improve, we may resume new issuances under the program. As of December 31, 2011, $2.1 billion of the outstanding retail notes were redeemable by the Company at par. The Company may, from time to time, redeem some or all of these retail notes as part of its overall liquidity and capital management.

In 2008, Prudential Financial issued $600 million of 8.875% fixed-to-floating rate junior subordinated notes to institutional investors and $920 million of 9.0% fixed-rate junior subordinated notes to retail investors. Both issuances are considered hybrid capital securities, which receive enhanced equity treatment from the rating agencies. Both series of notes have a scheduled maturity of June 15, 2038 and a final maturity of June 15, 2068. In connection with the issuance of both series of notes, Prudential Financial entered into a replacement capital covenant, or RCC, for the benefit of holders of its 6.625% Senior Notes due 2037. Under the RCC, Prudential Financial agreed that it will not repay, redeem, defease, or purchase these junior subordinated notes prior to June 15, 2048, unless it has received proceeds from the issuance of specified replacement capital securities, which include, but are not limited to, hybrid capital securities and common stock. See Note 14 to our Consolidated Financial Statements for additional information concerning these junior subordinated notes.

Consolidated Borrowings

Current capital markets activities for the Company on a consolidated basis principally consist of unsecured short-term and long-term borrowings by Prudential Funding and Prudential Financial, unsecured third party bank borrowings, and asset-based or secured financing. As of December 31, 2011, we were in compliance with all debt covenants related to the borrowings in the table below.

The following table sets forth total consolidated borrowings of the Company as of the dates indicated.

	December 31,	
	2011	2010
	(in millions)	
Borrowings:		
General obligation short-term debt(1)	$ 2,336	$ 1,982
General obligation long-term debt:		
Senior debt	16,488	15,517
Junior subordinated debt (hybrid securities)	1,519	1,519
Surplus notes(2)(3)	4,140	4,142
Other(4)	725	725
Total general obligation long-term debt	22,872	21,903
Total general obligations	25,208	23,885
Limited and non-recourse borrowing:		
Limited and non-recourse long-term debt(5)	1,750	1,750
Total limited and non-recourse borrowing	1,750	1,750
Total borrowings(6)	26,958	25,635
Total asset-based financing	9,196	8,057
Total borrowings and asset-based financings	$36,154	$33,692

(1) As of December 31, 2011 and 2010, includes $199 million and $275 million, respectively, of short-term debt representing collateralized advances with the Federal Home Loan Bank of New York, which are discussed in more detail in "—Alternative Sources of Liquidity—Federal Home Loan Bank of New York."
(2) As of both December 31, 2011 and 2010, includes $3.2 billion of floating rate surplus notes issued by subsidiaries of Prudential Insurance to fund regulatory reserves, as well as $940 million and $942 million, respectively, of fixed rate surplus notes issued by Prudential Insurance.
(3) As of December 31, 2011, the $4.1 billion of surplus notes outstanding is net of $500 million of assets under set-off arrangements, representing a reduction in the amount of surplus notes included in long-term debt, relating to an arrangement where valid rights of offset exist and it is the intent of both parties to settle on a net basis under legally enforceable arrangements.
(4) Reflects collateralized advances with Federal Home Loan Bank of New York, which are discussed in more detail in "—Alternative Sources of Liquidity—Federal Home Loan Bank of New York."
(5) As of both December 31, 2011 and 2010, the $1.75 billion of limited and non-recourse long-term debt outstanding was attributable to the Closed Block Business.
(6) Does not include $3.2 billion and $3.5 billion of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes as of December 31, 2011 and 2010, respectively, or $1.5 billion of collateralized funding agreements issued to the Federal Home Loan Bank of New York as of both December 31, 2011 and 2010. These notes and funding agreements are included in "Policyholders' account balances." For additional information on the trust notes, see "—Funding Agreement Notes Issuance Program" and for additional information on the Federal Home Loan Bank of New York funding agreements, see "—Alternative Sources of Liquidity—Federal Home Loan Bank of New York."

Total general debt obligations increased by $1.3 billion from December 31, 2010 to December 31, 2011, primarily reflecting issuances of medium-term notes and the assumption of Star and Edison debt. In conjunction with the acquisition of Star and Edison, the Company assumed ¥47.8 billion of long-term debt, of which ¥32.5 billion and ¥5.3 billion are scheduled to mature in 2014 and 2026, respectively, and ¥10 billion has no stated maturity date. At December 31, 2011, the carrying value of this debt was $520 million.

Our total borrowings consist of capital debt, investment-related debt, securities business-related debt and debt related to specified other businesses. Capital debt consists of borrowings that are used or will be used to meet the capital requirements of Prudential Financial, as well as borrowings invested in equity or debt securities of direct or indirect subsidiaries of Prudential Financial and subsidiary borrowings utilized for capital requirements. Investment-related borrowings consist of debt issued to finance specific investment assets or portfolios of investment assets, including institutional spread lending investment portfolios, real estate and real estate-related investments held in consolidated joint ventures, assets supporting reserve requirements under Regulation XXX and Guideline AXXX as described below, as well as institutional and insurance company portfolio cash flow timing differences. Securities business-related debt consists of debt issued to finance primarily the liquidity of our broker-dealers and our capital markets and other securities business-related operations. Debt related to specified other businesses consists of borrowings associated with our individual annuities business, real estate franchises, and relocation services. Those borrowings where the holder is entitled to collect only against the assets pledged to the debt as collateral, or where the borrower has only very limited rights to collect against other assets, have been classified as limited and non-recourse debt.

The following table summarizes our borrowings, categorized by use of proceeds, as of the dates indicated.

	December 31,	
	2011	2010
	(in millions)	
General obligations:		
Capital debt(1)	$11,224	$ 8,763
Investment-related	8,897	9,569
Securities business-related	1,518	2,230
Specified other businesses	3,569	3,323
Total general obligations	25,208	23,885
Limited and non-recourse debt(2)	1,750	1,750
Total borrowings	$26,958	$25,635
Short-term debt	$ 2,336	$ 1,982
Long-term debt	24,622	23,653
Total borrowings	$26,958	$25,635
Borrowings of Financial Services Businesses	$25,208	$23,885
Borrowings of Closed Block Business	1,750	1,750
Total borrowings	$26,958	$25,635

(1) Includes $1,519 million of total outstanding junior subordinated debt. See "—Prudential Financial" for additional information on our capital debt to total capital ratio, including the equity credit attributed to our outstanding junior subordinated debt.
(2) As of both December 31, 2011 and 2010, the limited and non-recourse debt outstanding was attributable to the Closed Block Business.

The following table presents, as of December 31, 2011, the contractual maturities of the Company's long-term debt.

	Long-term Debt
	(in millions)
Calendar Year:	
2013	$ 1,825
2014	2,064
2015	3,159
2016	1,502
2017 and thereafter	16,072
Total	$24,622

We may, from time to time, seek to redeem or repurchase our outstanding debt securities through individually negotiated transactions or otherwise. Any such repurchases will depend on prevailing market conditions, our liquidity position, contractual restrictions and other factors.

The states of domicile of our domestic life 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 non-economic, 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, including actions that are described in more detail below.

During 2011, a subsidiary of Prudential Insurance entered into agreements providing for the issuance and sale of up to $1 billion of ten-year fixed-rate surplus notes in order to finance reserves required under Regulation XXX. At December 31, 2011, $500 million of surplus notes were outstanding under this facility. Under the agreements, the subsidiary issuer received debt securities, with a principal amount equal to the surplus notes issued, which are redeemable under certain circumstances, including upon the occurrence of specified stress events affecting the subsidiary issuer. Because valid rights of set-off exist, interest and principal payments on the surplus notes and on the debt securities are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis. Prudential Financial has agreed to make capital contributions to the subsidiary issuer in order to reimburse it for investment losses in excess of specified amounts. In addition, during 2011, another subsidiary of Prudential Insurance issued a $1.5 billion surplus note to an affiliate to finance reserves required under Guideline AXXX.

Subsidiaries of Prudential Insurance have outstanding an additional $3.2 billion of surplus notes that were issued in 2006 and 2007 to finance reserves required under Regulation XXX and Guideline AXXX. Prudential Financial has agreed to maintain the capital of these subsidiaries at or above a prescribed minimum level and has entered into arrangements (which are accounted for as derivative instruments) that require it to make certain payments in the event of deterioration in the value of these surplus notes. As of December 31, 2011, there were no collateral postings made under these derivative instruments.

The surplus notes described above are subordinated to policyholder obligations, and the payment of interest and principal on the surplus notes may only be made with prior regulatory approval.

As we continue to underwrite term and universal life business, we expect to have additional borrowing needs to finance statutory reserves required under Regulation XXX and Guideline AXXX. However, we believe we have sufficient financing resources in place, including those described above, to meet our financing needs under Regulation XXX through 2012 and under Guideline AXXX through the year 2014, assuming that the volume of new business remains consistent with current sales levels.

Funding Agreement Notes Issuance Program

In 2003, Prudential Insurance established a Funding Agreement Notes Issuance Program pursuant to which a Delaware statutory trust issues medium-term notes (which are included in our statements of financial position in “Policyholders’ account balances” and not included in the foregoing table) secured by funding agreements issued to the trust by Prudential Insurance and included in our Retirement segment. The funding agreements provide cash flow sufficient for the debt service on the related medium-term notes. The medium-term notes are sold in transactions not requiring registration under the Securities Act of 1933. The notes have fixed or floating interest rates and original maturities ranging from five to ten years. As of December 31, 2011 and 2010, the outstanding aggregate principal amount of such notes totaled $3.2 billion and $3.5 billion respectively, out of a total authorized amount of up to $15 billion. Our ability to issue under this program depends on market conditions. The aggregate maturities of these notes over the next 12 months are approximately $1.4 billion. We intend to repay the maturing notes through a combination of cash flows from asset maturities and available cash.

Credit Facilities

In December 2011, we replaced our previously-existing $3.93 billion of revolving credit facilities, by entering into a new $2 billion five-year credit facility with 19 financial institutions that has Prudential Financial as borrower and a new $1.75 billion three-year credit facility with 23 financial institutions that has both Prudential Financial and Prudential Funding as borrowers. There were no outstanding borrowings under these credit facilities as of December 31, 2011 or as of February 24, 2012.

Each of the new facilities is available to the applicable borrowers up to the aggregate committed credit and may be used for general corporate purposes, including as backup liquidity for our commercial paper programs. Prudential Financial expects that it may borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used to meet the Company’s operating needs.

The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on our credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities are conditioned on the continued satisfaction of other customary conditions, including the maintenance at all times of consolidated net worth, relating to the Company’s Financial Services Businesses only, of at least $21.25 billion, which for this purpose is calculated as U.S. GAAP equity, excluding “Accumulated other comprehensive income (loss)” and excluding equity of noncontrolling interests. Under the applicable credit agreements, the required minimum level of consolidated net worth will be reduced automatically in the future by an amount equal to 85 percent of the amount of any reduction, on an after-tax basis, in the total U.S. GAAP equity attributable to the Company’s Financial Services Businesses, resulting from the Company’s expected retrospective application of amended authoritative guidance regarding the deferral of costs relating to the acquisition of new or renewal insurance contracts.

As of December 31, 2011, the consolidated net worth of the Company’s Financial Services Businesses exceeded the minimum amount required to borrow under the credit facilities.

We also use uncommitted lines of credit from financial institutions.

Ratings

Financial strength ratings (which are sometimes referred to as “claims-paying” ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries 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, 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. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of February 24, 2012.

	A.M. Best(1)	S&P(2)	Moody's(3)	Fitch(4)
Financial Strength Ratings:				
The Prudential Insurance Company of America	A+	AA-	A2	A+
Pruco Life Insurance Company	A+	AA-	A2	A+
Pruco Life Insurance Company of New Jersey	A+	AA-	NR*	A+
Prudential Annuities Life Assurance Corporation	A+	AA-	NR	A+
Prudential Retirement Insurance and Annuity Company	A+	AA-	A2	A+
The Prudential Life Insurance Company Ltd. (Prudential of Japan)	NR	AA-	NR	NR
Gibraltar Life Insurance Company, Ltd.	NR	AA-	A2	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	AMB-1	A-1	P-2	F2
Long-term senior debt(5)	a-	A	Baa2	BBB+
Junior subordinated long-term debt	bbb	BBB+	Baa3	BBB-
The Prudential Insurance Company of America:				
Capital and surplus notes	a	A	Baa1	A-
Prudential Funding, LLC:				
Short-term debt	AMB-1	A-1+	P-2	F1
Long-term senior debt	a+	AA-	A3	A
PRICOA Global Funding I:				
Long-term senior debt	aa-	AA-	A2	A+

* "NR" indicates not rated.

(1) A.M. Best Company , which we refer to as A.M. Best, financial strength ratings for insurance companies currently range from "A++ (superior)" to "F (in liquidation)." A.M. Best's ratings reflect its opinion of an insurance company's financial strength, operating performance and ability to meet its obligations to policyholders. An A.M. Best long-term credit rating is an opinion of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. A.M. Best long-term credit ratings range from "aaa (exceptional)" to "d (in default)," with ratings from "aaa" to "bbb" considered as investment grade. An A.M. Best short-term credit rating reflects an opinion of the issuer's fundamental credit quality. Ratings range from "AMB-1+," which represents an exceptional ability to repay short-term debt obligations, to "AMB-4," which correlates with a speculative ("bb") long-term rating.

(2) Standard & Poor's Rating Services, which we refer to as S&P, financial strength ratings currently range from "AAA (extremely strong)" to "R (regulatory supervision)." These ratings reflect S&P's opinion of an operating insurance company's financial capacity to meet the obligations of its insurance policies in accordance with their terms. A "+" or "-" indicates relative strength within a category. An S&P credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. S&P's long-term issue credit ratings range from "AAA (extremely strong)" to "D (default)." S&P short-term ratings range from "A-1 (highest category)" to "D (default)."

(3) Moody's Investors Service, Inc., which we refer to as Moody's, insurance financial strength ratings currently range from "Aaa (exceptional)" to "C (lowest)." Moody's insurance ratings reflect the ability of insurance companies to repay punctually senior policyholder claims and obligations. Numeric modifiers are used to refer to the ranking within the group—with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody's credit ratings currently range from "Aaa (highest)" to "C (default)." Moody's credit ratings grade debt according to its investment quality. Moody's considers "A1," "A2" and "A3" rated debt to be upper medium grade obligations, subject to low credit risk. Moody's short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Prime ratings range from "Prime-1 (P-1)," which represents a superior ability for repayment of senior short-term debt obligations, to "Prime-3 (P-3)," which represents an acceptable ability for repayment of such obligations. Issuers rated "Not Prime" do not fall within any of the Prime rating categories.

(4) Fitch Ratings Ltd., which we refer to as Fitch, financial strength ratings currently range from "AAA (exceptionally strong)" to "D (distressed)." Fitch's ratings reflect its assessment of the likelihood of timely payment of policyholder and contractholder obligations. Fitch long-term credit ratings currently range from "AAA (highest credit quality)," which denotes exceptionally strong capacity for timely payment of financial commitments, to "D (default)." Investment grade ratings range between "AAA" and "BBB." Short-term ratings range from "F1 (highest credit quality)" to "C (high default risk)." Within long-term and short-term ratings, a "+" or a "–" may be appended to a rating to denote relative status within major rating categories.

(5) Includes the retail medium-term notes program.

The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, we cannot assure you that we will maintain our current ratings in the future.

Requirements to post collateral or make other payments as a result of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels as of December 31, 2011 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated additional collateral posting requirements or payments under such agreements of approximately $75 million. The amount of collateral required to be posted for derivative agreements is also dependent on the fair value of the derivative positions as of the balance sheet date. For additional information regarding the potential impacts of a ratings downgrade on our derivative agreements see Note 21 to our Consolidated Financial Statements. 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. We believe that the posting of such collateral would not be a material liquidity event for Prudential Insurance.

Rating agencies use an "outlook" statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12-18 months the rating agency expects ratings to remain unchanged among companies in the sector. Currently, A.M. Best, S&P, Moody's and Fitch all have the U.S. life insurance industry on stable outlook. For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. Moody's currently has all of the Company's ratings on positive outlook. Except as noted below, A.M. Best, S&P, and Fitch currently have the Company's ratings on stable outlook.

In view of the difficulties experienced recently by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

The following is a summary of the significant changes in our ratings and rating outlooks that have occurred from the beginning of 2011 through February 24, 2012.

On April 27, 2011, S&P assigned a negative outlook to the ratings of The Prudential Life Insurance Company Ltd. and Gibraltar Life Insurance Company, Ltd. as part of its decision to put the sovereign debt ratings of Japan on negative outlook.

On June 8, 2011, A.M. Best affirmed the long-term senior debt rating of Prudential Financial at "a-" and the financial strength ratings of our life insurance subsidiaries at "A+."

On June 23, 2011, Moody's affirmed the long-term senior debt rating of Prudential Financial at "Baa2" and the financial strength ratings of our life insurance subsidiaries at "A2," and revised the outlook from stable to positive.

In July 2011, S&P affirmed the long-term senior debt rating of Prudential Financial at "A" and the financial strength ratings of our life insurance subsidiaries at "AA-."

On October 13, 2011, S&P upgraded the financial strength and long-term counterparty ratings of AIG Edison Life Insurance Company from "A" to "AA-" with a negative outlook. The negative outlook reflects S&P's outlook on the sovereign debt ratings of Japan.

On December 19, 2011, Fitch affirmed the long-term senior debt rating of Prudential Financial at "BBB+" and the financial strength ratings of our life insurance subsidiaries at "A+."

On January 4, 2012, Moody's affirmed the financial strength rating of Gibraltar Life Insurance Company, Ltd at "A2." At the same time, Moody's withdrew the "A2" financial strength rating of AIG Edison Life Insurance Company due to its merger with Gibraltar Life Insurance Company, Ltd.

On January 5, 2012, S&P withdrew the financial strength and long-term counterparty ratings of AIG Edison Life Insurance Company due to its merger with Gibraltar Life Insurance Company, Ltd.

Contractual Obligations

The table below summarizes the future estimated cash payments related to certain contractual obligations as of December 31, 2011. The estimated payments reflected in this table are based on management's estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the actual cash outflows in future periods will vary, possibly materially, from those reflected in the table. In addition, we do not believe that our cash flow requirements can be adequately assessed based solely upon an analysis of these obligations, as the table below does not contemplate all aspects of our cash inflows, such as the level of cash flow generated by certain of our investments, nor all aspects of our cash outflows.

	Estimated Payments Due by Period				
	Total	**2012**	**2013-2014**	**2015-2016**	**2017 and thereafter**
			(in millions)		
Short-term and long-term debt obligations(1)	$ 41,048	$ 3,616	$ 6,223	$ 6,619	$ 24,590
Operating lease obligations(2)	686	152	257	134	143
Purchase obligations:					
Commitments to purchase or fund investments(3)	5,573	4,562	927	47	37
Commercial mortgage loan commitments(4)	2,139	1,565	459	0	115
Other liabilities:					
Insurance liabilities(5)	1,136,044	43,690	69,525	72,471	950,358
Other(6)	11,563	10,662	249	51	601
Total	$1,197,053	$64,247	$77,640	$79,322	$975,844

(1) The estimated payments due by period for long-term debt reflects the contractual maturities of principal, as disclosed in Note 14 to the Consolidated Financial Statements, as well as estimated future interest payments. The payment of principal and estimated future interest for short-term debt are reflected in estimated payments due in less than one year. The estimate for future interest payments includes the effect of derivatives that qualify for hedge accounting treatment. See Note 14 to the Consolidated Financial Statements for additional information concerning our short-term and long-term debt.
(2) The estimated payments due by period for operating leases reflect the future minimum lease payments under non-cancelable operating leases, as disclosed in Note 23 to the Consolidated Financial Statements. We have no significant capital lease obligations.
(3) As discussed in Note 23 to the Consolidated Financial Statements, we have commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. The timing of the fulfillment of certain of these commitments cannot be estimated, therefore the settlement of these obligations are reflected in estimated payments due in less than one year. Commitments to purchase or fund investments include $1.159 billion that we anticipate will ultimately be funded from our separate accounts. Of these separate account commitments, $0.397 billion have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due. For further discussion of these separate account commitments, see "—Liquidity and Capital Resources of Subsidiaries—Asset Management Subsidiaries."
(4) As discussed in Note 23 to the Consolidated Financial Statements, loan commitments of our commercial mortgage operations, which are legally binding commitments to extend credit to a counterparty, have been reflected in the contractual obligations table above principally based on the expiration date of the commitment; however, it is possible these loan commitments could be funded prior to their expiration. In certain circumstances the counterparty may also extend the date of the expiration in exchange for a fee.
(5) The estimated payments due by period for insurance liabilities reflect future estimated cash payments to be made to policyholders and others for future policy benefits, policyholders' account balances, policyholder's dividends, reinsurance payables and separate account liabilities. These future estimated cash outflows are based on mortality, morbidity, lapse and other assumptions comparable with our experience, consider future premium receipts on current policies in force, and assume market growth and interest crediting consistent with assumptions used in amortizing deferred acquisition costs and value of business acquired. These cash outflows are undiscounted with respect to interest and, as a result, the sum of the cash outflows shown for all years in the table of $1,136 billion exceeds the corresponding liability amounts of $530 billion included in the Consolidated Financial Statements as of December 31, 2011. Separate account liabilities are legally insulated from general account obligations, and it is generally expected these liabilities will be fully funded by separate account assets and their related cash flows. We have made significant assumptions to determine the future estimated cash outflows related to the underlying policies and contracts. Due to the significance of the assumptions used, actual cash outflows will differ, possibly materially, from these estimates.
(6) The estimated payments due by period for other liabilities includes securities sold under agreements to repurchase, cash collateral for loaned securities, liabilities for unrecognized tax benefits, bank customer liabilities, and other miscellaneous liabilities.

We also enter into agreements to purchase goods and services in the normal course of business; however, these purchase obligations are not material to our consolidated results of operations or financial position as of December 31, 2011.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to which we may be contingently required to make payments now or in the future. See "Commitments and Guarantees" within Note 23 to the Consolidated Financial Statements for additional information.

Other Contingent Commitments

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See "Commitments and Guarantees" within Note 23 to the Consolidated Financial Statements for additional information regarding these commitments. For further discussion of certain of these commitments that relate to our separate accounts, also see "—Liquidity and Capital Resources of Subsidiaries—Asset Management Subsidiaries."

Other Off-Balance Sheet Arrangements

We do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management, Market Risk and Derivative Instruments

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities. We consider risk management an integral part of managing our core businesses.

Market risk is the risk of change in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, the investment and trading activities supporting all of our products and services generate exposure to market risk. The market risk incurred and our strategies for managing this risk vary by product.

With respect to non-variable life insurance products, fixed-rate annuities, the fixed-rate accounts in our variable life insurance and annuity products, and other finance businesses, we incur market risk primarily in the form of interest rate risk. We manage this risk through asset/liability management and derivative strategies that 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. Our overall objective in these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements within the context of market conditions and other relative opportunities. While it is more difficult to measure the interest sensitivity of our insurance liabilities than that of the related assets, to the extent that we can measure such sensitivities we believe that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying products. Certain products supported by general account investments also 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. In a declining or sustained low interest rate environment, our ability to achieve desired spreads can become limited by minimum guaranteed crediting rates associated with some of our variable life insurance and annuity products.

For variable annuities and variable life insurance products, excluding the fixed-rate accounts associated with these products, mutual funds and most separate accounts, we are exposed to the risk that asset-based fees may decrease as a result of declines in assets under management due to changes in investment values. We also run the risk that asset management fees calculated by reference to performance could be lower. The risk of decreased asset-based and asset management fees could also impact our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. While a decrease in our estimates of total gross profits would accelerate amortization and decrease net income in a given period, it would not affect our cash flow or liquidity position.

For variable annuity and variable life insurance products with minimum guaranteed death benefits and variable annuity products with living benefits such as guaranteed minimum income, withdrawal, and accumulation benefits, we also face the risk that declines in the value of underlying investments as a result of interest rate, equity market, or market volatility changes may increase our net exposure to the guarantees under these contracts. As part of our risk management strategy, we utilize product design elements such as asset allocation restrictions, an automatic rebalancing element and minimum purchase age requirements, in addition to externally-purchased hedging instruments such as interest rate and equity-based derivatives to help to hedge or limit our market risk exposure to the benefit features of certain of our variable annuity contracts. See Note 21 to the Consolidated Financial Statements for a discussion of our use of interest rate and equity based derivatives. See Note 11 to our Consolidated Financial Statements for additional information about the guaranteed minimum death benefits associated with our variable life and variable annuity contracts, and the guaranteed minimum income, withdrawal, and accumulation benefits associated with our variable annuity contracts.

For a discussion of asset-based fees associated with our variable life products and our variable annuity contracts, our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, and the impact of our guaranteed minimum death and other benefits on the results of our Individual Life and Individual Annuities segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for Financial Services Businesses by Segment—U.S. Individual Life and Group Insurance Division—Individual Life" and "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."

For risk management purposes we perform stress scenario testing to monitor the impact of extreme, but realistic adverse market events on our capital adequacy and liquidity. This testing allows us to assess the sensitivity of our businesses to market factors and identify any concentrations of risk. The regulatory capital levels and liquidity of our insurance companies in particular are closely monitored to ensure they remain consistent with our rating objectives. Changes to these ratings could impact our borrowing costs, our ability to access alternative sources of liquidity, and our ability to market certain products. For additional information regarding our liquidity and capital resources see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." Market fluctuations or changes in market conditions could also cause a change in consumer sentiment adversely affecting sales and persistency of our long-term savings, protection and other investment products. For additional information regarding the potential impacts of interest rate and other market fluctuations as well as general economic and market conditions on our businesses and profitability see "Risk Factors" included in Prudential Financial's 2011 Annual Report on Form 10-K.

The sources of our exposure to market risk can be divided into two categories, "other than trading" activities conducted primarily in our insurance and annuity operations, and "trading" activities conducted primarily in our derivatives trading operations. As part of our management of both "other than trading" and "trading" market risks, we use a variety of risk management tools and techniques, which include sensitivity and Value-at-Risk, or VaR, measures, position and other limits based on type of risk, and various hedging methods.

Other Than Trading Activities

We hold the majority of our assets for "other than trading" activities in our segments that offer insurance, retirement and annuities products. We incorporate asset/liability management techniques and other risk management policies and limits into the process of investing our assets. We use derivatives for hedging and other purposes in the asset/liability management process.

Insurance and Annuities Products Asset/Liability Management

We seek to maintain interest rate and equity exposures within established ranges, which we periodically adjust based on market conditions and the design of related products sold to customers. Our risk managers establish investment risk limits for exposures to any issuer, geographic region, type of security or industry sector and oversee efforts to manage interest rate and equity exposure risk, as well as credit, liquidity and other risks, all within policy constraints set by management and approved by the Investment Committee of the Board of Directors. For additional information regarding the management of our general account investments and our asset mix strategies, 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—Management of Investments."

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by legal entity by matching the relative sensitivity of asset and liability values to interest rate changes, or controlling "duration mismatch" of assets and liabilities. We have target duration mismatch constraints by segment for each insurance entity. In certain markets, primarily outside the U.S., capital market limitations that hinder our ability to acquire assets that closely approximate the duration of some of our liabilities are considered in setting the constraint limits. As of December 31, 2011 and 2010, the difference between the pre-tax duration of assets and the target duration of liabilities in our duration-managed portfolios was within our constraint limits. We consider risk-based capital and tax implications as well as current market conditions in our asset/liability management strategies.

We also perform portfolio stress testing as part of our U.S. regulatory cash flow for major product lines that are subject to risk from changes in interest rates. In this testing, we evaluate the impact of altering our interest-sensitive assumptions under various adverse interest rate environments. These interest-sensitive assumptions relate to the timing and amount of redemptions and prepayments of fixed-income securities and lapses and surrenders of insurance products and the potential impact of any guaranteed minimum interest rates. We evaluate any shortfalls that this cash flow testing reveals to determine if we need to increase statutory reserves or adjust portfolio management strategies.

Market Risk Related to Interest Rates

Our "other than trading" assets that subject us to interest rate risk primarily include fixed maturity securities, commercial mortgage and other loans and policy loans. In the aggregate, the carrying value of these assets represented 80% and 78% of our consolidated assets, other than assets that we held in separate accounts, as of December 31, 2011 and 2010, respectively.

With respect to "other than trading" liabilities, we are exposed to interest rate risk through policyholder account balances relating to interest-sensitive life insurance, annuity and other investment-type contracts, collectively referred to as investment contracts, and through outstanding short-term and long-term debt.

We assess interest rate sensitivity for "other than trading" financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates, reflecting changes in either credit spreads or the risk-free rate. The following tables set forth the net estimated potential loss in fair value from a hypothetical 100 basis point upward shift as of December 31, 2011 and 2010, because this scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve, which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations.

	As of December 31, 2011			
	Notional	Fair Value	Hypothetical Fair Value After +100 Basis Point Parallel Yield Curve Shift	Hypothetical Change in Fair Value
			(in millions)	
Financial assets with interest rate risk:				
Fixed maturities(1)		$ 279,099	$257,476	$(21,623)
Commercial mortgage and other loans		37,740	36,220	(1,520)
Policy loans		14,858	13,871	(987)
Derivatives:				
Swaps	$179,745	5,272	1,676	(3,596)
Futures	6,193	150	63	(87)
Options	15,650	383	103	(280)
Forwards	19,120	(152)	(187)	(35)
Variable annuity and other living benefit feature embedded derivatives(2)		(2,886)	(871)	2,015
Financial liabilities with interest rate risk:				
Short-term and long-term debt		(28,174)	(25,951)	2,223
Debt of consolidated variable interest entities(3)		(493)	(493)	0
Investment contracts		(103,184)	(99,641)	3,543
Bank customer liabilities		(1,745)	(1,733)	12
Net estimated potential loss				$(20,335)

	As of December 31, 2010			
	Notional	Fair Value	Hypothetical Fair Value After +100 Basis Point Parallel Yield Curve Shift	Hypothetical Change in Fair Value
			(in millions)	
Financial assets with interest rate risk:				
Fixed maturities(1)		$217,694	$202,279	$(15,415)
Commercial mortgage and other loans		33,129	31,869	(1,260)
Policy loans		12,781	11,978	(803)
Derivatives:				
Swaps	$138,442	563	(1,182)	(1,745)
Futures	6,834	0	(43)	(43)
Options	23,277	516	427	(89)
Forwards	11,891	(159)	(167)	(8)
Variable annuity and other living benefit feature embedded derivatives(2)		204	1,388	1,184
Financial liabilities with interest rate risk:				
Short-term and long-term debt		(27,093)	(25,049)	2,044
Debt of consolidated variable interest entities(3)		(265)	(265)	0
Investment contracts		(78,757)	(76,258)	2,499
Bank customer liabilities		(1,775)	(1,762)	13
Net estimated potential loss				$(13,623)

(1) Includes "trading account assets supporting insurance liabilities" and other fixed maturities classified as trading securities under U.S. GAAP, but are held for "other than trading" activities in our segments that offer insurance, retirement and annuities products.
(2) The hypothetical change in fair value related to our variable annuity and other living benefit feature embedded derivatives reflects only the gross fair value change on the embedded derivatives, and excludes any offsetting impact of derivative instruments purchased to hedge such changes in fair value.
(3) Included in "Other liabilities" together with all liabilities of consolidated variable interest entities. See Note 5 to the Consolidated Financial Statements for additional information regarding consolidated variable interest entities.

The tables above do not include approximately $203 billion of insurance reserve and deposit liabilities as of December 31, 2011 and $163 billion as of December 31, 2010 which are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and liabilities, including investment contracts, which are set forth in these tables.

Our net estimated potential loss in fair value as of December 31, 2011 increased $6,712 million from December 31, 2010, primarily reflecting an increase in our fixed maturity securities portfolio in 2011. The increase in our fixed maturity securities portfolio in 2011 was primarily due to the acquisition of the Star and Edison Businesses on February 1, 2011, as well as portfolio growth as a result of reinvestment of net investment income and a net increase in fair value primarily driven by a net decrease in interest rates.

The estimated changes in fair values of our financial assets shown above relate primarily to assets invested to support our insurance liabilities, but do not include separate account assets associated with products for which investment risk is borne primarily by the separate account contractholders rather than by us.

Market Risk Related to Equity Prices

We actively manage investment equity price risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. For foreign equities we benchmark against the Tokyo Price Index, or TOPIX, and the MSCI EAFE, a market index of European, Australian, and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices. We estimate our investment equity price risk from a hypothetical 10% decline in equity benchmark market levels and measure this risk in terms of the decline in fair market value of equity securities we hold. Using this methodology, our estimated investment equity price risk as of December 31, 2011 was $1,007 million, representing a hypothetical decline in fair market value of equity securities we held at that date from $10.067 billion to $9.060 billion. Our estimated investment equity price risk using this methodology as of December 31, 2010 was $922 million, representing a hypothetical decline in fair market value of equity securities we held at that date from $9.217 billion to $8.295 billion. In calculating these amounts, we exclude separate account equity securities related to products for which the investment risk is borne primarily by the separate account contractholder rather than by us.

In addition to equity securities, as indicated above, we hold equity-based derivatives primarily to hedge the equity price risk embedded in the living benefit features in some of our variable annuity products, as well as part of our capital hedging program described further below. As of December 31, 2011, our equity-based derivatives had notional values of $21.749 billion, and were reported at fair value as a $358 million asset, and the living benefit features accounted for as embedded derivatives were reported at fair value as a $2.886 billion liability. As of December 31, 2010, our equity-based derivatives had notional values of $26.004 billion, and were reported at fair value as a $353 million asset, and the living benefits features accounted for as embedded derivatives were reported at fair value as a $204 million asset. Our estimated equity price risk associated with living benefit features accounted for as embedded derivatives, net of the related equity-based derivatives used in our living benefits hedging program, was a $433 million benefit as of December 31, 2011 and a $87 million benefit as of December 31, 2010, estimated based on a hypothetical 10% decline in equity benchmark market levels. The higher sensitivity level as of December 31, 2011 primarily reflects a greater impact from our own risk of non-performance, driven by a higher base of embedded derivative liabilities and widening credit spreads, as this risk does not have an offsetting impact on the hedge assets. See Note 20 to the Consolidated Financial Statements for additional information on the impact of our own risk of non-performance on the valuation of the living benefit features accounted for as embedded derivatives. In addition, beginning in the second quarter of 2010, we have entered into equity index-linked derivative transactions that are designed to mitigate the impact of a severe equity market stress event on statutory capital. The program focuses on tail risk to protect our capital in a cost-effective manner under stress scenarios. We continue to 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. Our estimated equity price risk associated with these capital hedges was a benefit of $9 million and $3 million as of December 31, 2011 and 2010, respectively, estimated based on a hypothetical 10% decline in equity benchmark market levels, which would partially offset an overall decline in our capital position related to the equity market decline.

While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they represent near term reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct impact on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in our variable annuity contracts that could also impact the fair value of our living benefit features. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features, in comparison to the scenarios above.

Market Risk Related to Foreign Currency Exchange Rates

We are exposed to foreign currency exchange rate risk in our domestic general account investment portfolios, other proprietary investment portfolios and through our operations in foreign countries and foreign currency liability issuances.

Our exposure to foreign currency risk within the domestic general account investment portfolios supporting our U.S. insurance operations and other domestic proprietary investment portfolios arises primarily from investments that are denominated in foreign currencies. We generally hedge substantially all domestic general account foreign currency-denominated fixed-income investments and other domestic proprietary foreign currency investments into U.S. dollars in order to mitigate the risk that the cash flows or fair value of these investments fluctuates as a result of changes in foreign currency exchange rates. We generally do not hedge all of the foreign currency risk of our investments in equity securities of unaffiliated foreign entities.

Our operations in foreign countries create the following three additional sources of foreign currency risk:

- First, we reflect the operating results of our foreign operations in our financial statements based on the average exchange rates prevailing during the period. We hedge some of these foreign currency operating results as part of our overall risk management strategy. We generally hedge our anticipated exposure to adjusted operating income fluctuations resulting from changes in foreign currency exchange rates relating to our International operations primarily in Japan, Korea and Taiwan.
- Second, we translate our equity investment in foreign operations into U.S. dollars using the foreign currency exchange rate at the financial statement period-end date. For our equity investments in our Japanese and Taiwanese operations, we generally hedge this exposure through a combination of issuing foreign denominated liabilities outside these operations and by holding U.S. dollar-denominated securities in the investment portfolios of these operations.
- Third, our international insurance operations may hold investments denominated in currencies other than the functional currency of those operations on an unhedged basis in addition to the aforementioned equity hedges resulting from foreign subsidiaries' investing in U.S. dollar-denominated investments. Most significantly, our Japanese operations hold investments denominated in U.S. dollars and Australian dollars in their investment portfolios in excess of our equity investment in such operations. These investments support product liabilities in the corresponding currencies. For a discussion of our Japanese operations' investments denominated in U.S. dollars and Australian dollars, 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—Portfolio Composition," and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for Financial Services Businesses by Segment—International Insurance Division."

We manage our investment foreign currency exchange rate risks, described above, within specified limits. Foreign currency exchange risks for our domestic general account investment portfolio and the unhedged portion of our equity investment in foreign subsidiaries are managed using VaR-based analysis. This statistical technique estimates, at a specified confidence level, the potential pre-tax loss in portfolio market value that could occur over an assumed time horizon due to adverse market movements.

The estimated VaR as of December 31, 2011 for foreign currency exchange risks in our domestic general account portfolio and the unhedged portion of equity investment in foreign subsidiaries, measured at a 95% confidence level and using a one-month time horizon, was $175 million, representing a hypothetical decline in fair market value of these foreign currency assets from $4.322 billion to $4.147 billion. The estimated VaR as of December 31, 2010 for foreign currency exchange risks in our domestic general account portfolio and the unhedged portion of equity investment in foreign subsidiaries, measured at a 95% confidence level and using a one-month time horizon, was $133 million, representing a hypothetical decline in fair market value of these foreign currency assets from $3.491 billion to $3.358 billion. The estimated one-month VaR as of December 31, 2011 increased driven by a higher level of exchange rate volatility experience during 2011. The average VaR for foreign currency exchange risks in our domestic general account portfolio and the unhedged portion of equity investment in foreign subsidiaries, measured monthly at a 95% confidence level over a one month time horizon, was $137 million during 2011 and $125 million during 2010. The average one-month VaR for 2011 increased in comparison to 2010 due to the higher level of exchange rate volatility experience during 2011. These calculations use historical price volatilities and correlation data at a 95% confidence level. We discuss limitations of VaR models below.

The estimated VaR for instruments used to hedge our anticipated exposure to adjusted operating income fluctuations resulting from changes in foreign currency exchange rates relating to our International operations, measured at a 95% confidence level and using a one-month time horizon, was $135 million as of December 31, 2011 and $134 million as of December 31, 2010. The increased VaR for foreign currency exchange risks primarily reflects an increase in the size of the investment portfolio driven by the acquisition of the Star and Edison Businesses on February 1, 2011, as well as increased volatility in exchange rates for Japanese yen and Korean won.

Derivatives

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, financial indices, or the prices of securities or commodities. Derivative financial instruments may be exchange-traded or contracted in the over-the-counter market and include swaps, futures, options and forward contracts. Derivatives also include guarantees we provide on investment-only, fee-based stable value products, which are classified as interest rate derivatives. We are also a party to financial instruments that may contain derivative instruments that are embedded in the financial instruments. Additionally, we are exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions. We manage credit risk by entering into derivative transactions with major international financial institutions and other creditworthy counterparties, and by obtaining collateral where appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review. See Note 21 to the Consolidated Financial Statements for a description of our derivative activities and credit risk as of December 31, 2011 and 2010. Under insurance statutes, our insurance companies may use derivative financial instruments to hedge actual or anticipated changes in their assets or liabilities, to replicate cash market instruments or for certain income-generating activities. These statutes generally prohibit the use of derivatives for speculative purposes. We use derivative financial instruments primarily to seek to reduce market risk from changes in interest rates, foreign currency exchange rates, as well as equity prices, and to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities. In addition, we use derivative financial instruments to mitigate risk associated with some of our benefit features of our variable annuity contracts. The notional amount of derivative instruments increased $41 billion in 2011, from $180 billion as of December 31, 2010 to $221 billion as of December 31, 2011, driven by an increase in interest rate derivatives, primarily related to our variable annuity hedging activities, and an increase in investment-only, fee-based stable value products sold in our retirement segment.

We use credit derivatives to enhance the return on our investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments, and purchase credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio. For additional information regarding our exposure to credit derivatives, 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—Fixed Maturity Securities—Credit Derivative Exposure to Public Fixed Maturities."

Trading Activities

Our derivatives trading operations engage in trading in a non-dealer capacity, maintaining trading positions to manage interest rate, currency, credit and equity exposures in our insurance, investment and international businesses, and treasury operations. Our derivative transactions involve both exchange-listed and over-the-counter contracts and are generally short-term in duration. Market risk affects the values of our trading positions through fluctuations in absolute or relative interest rates, foreign currency exchange rates, securities and commodity prices. We seek to use security positions and forwards, futures, options and other derivatives to limit exposure to interest rate and other market risks. Prior to the sale of our global commodities business on July 1, 2011, our trading activities included those in which we acted as a broker, buying and selling exchange-listed contracts for our customers, and as a dealer, by entering into futures and security transactions as a principal.

Value-at-Risk

VaR is one of the tools we use to monitor and manage our exposure to the market risk of our trading activities. We calculate a VaR that encompasses our trading activities using a 95% confidence level. The VaR method incorporates the risk factors to which the market value of our trading activities is exposed, which consist of interest rates, including credit spreads, foreign currency exchange rates, and commodity prices, estimates of volatilities from historical data, the sensitivity of our trading activities to changes in those market factors and the correlations of those factors. The total VaR for our trading activities, which considers our combined exposure to interest rate risk, foreign currency exchange rate risk, and commodities price risk, expressed in terms of adverse changes to fair value at a 95% confidence level over a one-day time horizon, was $0 million as of December 31, 2011 and $1 million as of December 31, 2010. The total average daily VaR for our trading activities considering our exposure to interest rate risk, foreign currency exchange rate risk, and commodities price risk, expressed in terms of adverse changes to fair value with a 95% confidence level over a one-day time horizon, was $1 million during both 2011 and 2010.

Limitations of VaR Models

Although VaR models are a recognized tool for risk management, they have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns. Accordingly, VaR models should not be viewed as a predictor of future results. We may incur losses that could be materially in excess of the amounts indicated by the models on a particular trading day or over a period of time, and there have been instances when results have fallen outside the values generated by our VaR models. A VaR model does not estimate the greatest possible loss. The results of these models and analysis thereof are subject to the judgment of our risk management personnel.

CONSOLIDATED FINANCIAL STATEMENTS

Management's Annual Report on Internal Control Over Financial Reporting

Management of Prudential Financial, Inc. (together with its consolidated subsidiaries, the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Management conducted an assessment of the effectiveness, as of December 31, 2011, of the Company's internal control over financial reporting, based on the framework established *in Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

Our internal control over financial reporting is a process designed by or under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

February 24, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Prudential Financial, Inc.:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, of equity and of cash flows present fairly, in all material respects, the financial position of Prudential Financial, Inc. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental combining financial information is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual components. Such supplemental information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As described in Note 2 of the consolidated financial statements, on January 1, 2009, the Company changed its method of determining and recording other-than-temporary impairment for debt securities.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

February 24, 2012

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Financial Position
December 31, 2011 and 2010 (in millions, except share amounts)

	2011	2010
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2011-$240,424; 2010-$187,754)(1)	$254,648	$194,983
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2011-$5,354; 2010-$5,477)(1)	5,107	5,226
Trading account assets supporting insurance liabilities, at fair value(1)	19,481	17,771
Other trading account assets, at fair value	5,545	4,225
Equity securities, available-for-sale, at fair value (cost: 2011-$6,922; 2010-$6,469)	7,535	7,741
Commercial mortgage and other loans (includes $603 and $364 measured at fair value under the fair value option at December 31, 2011 and 2010, respectively)(1)	35,431	31,831
Policy loans	11,559	10,667
Other long-term investments (includes $366 and $258 measured at fair value under the fair value option at December 31, 2011 and 2010, respectively)(1)	7,820	6,171
Short-term investments	9,121	5,297
Total investments	356,247	283,912
Cash and cash equivalents(1)	14,251	12,915
Accrued investment income(1)	2,793	2,377
Deferred policy acquisition costs	16,790	16,435
Other assets(1)	16,060	16,439
Separate account assets(1)	218,380	207,776
TOTAL ASSETS	$624,521	$539,854
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$170,459	$133,874
Policyholders' account balances	134,552	106,441
Policyholders' dividends	5,797	3,378
Securities sold under agreements to repurchase	6,218	5,885
Cash collateral for loaned securities	2,973	2,171
Income taxes	8,083	6,353
Short-term debt	2,336	1,982
Long-term debt	24,622	23,653
Other liabilities (includes $282 and $0 measured at fair value under the fair value option at December 31, 2011 and 2010, respectively)(1)	13,290	15,413
Separate account liabilities(1)	218,380	207,776
Total liabilities	586,710	506,926
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 23)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,264 and 660,110,810 shares issued at December 31, 2011 and 2010, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2011 and 2010, respectively)	0	0
Additional paid-in capital	24,293	24,223
Common Stock held in treasury, at cost (192,072,613 and 176,312,047 shares at December 31, 2011 and 2010, respectively)	(11,920)	(11,173)
Accumulated other comprehensive income (loss)	5,563	2,978
Retained earnings	19,281	16,381
Total Prudential Financial, Inc. equity	37,223	32,415
Noncontrolling interests	588	513
Total equity	37,811	32,928
TOTAL LIABILITIES AND EQUITY	$624,521	$539,854

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

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Operations
Years Ended December 31, 2011, 2010 and 2009 (in millions, except per share amounts)

	2011	2010	2009
REVENUES			
Premiums	$24,338	$18,260	$ 16,545
Policy charges and fee income	3,924	3,321	2,833
Net investment income	13,124	11,865	11,390
Asset management fees and other income	4,828	3,704	4,509
Realized investment gains (losses), net:			
Other-than-temporary impairments on fixed maturity securities	(2,202)	(3,016)	(3,721)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	1,667	2,284	2,027
Other realized investment gains (losses), net	3,366	1,782	(1,203)
Total realized investment gains (losses), net	2,831	1,050	(2,897)
Total revenues	49,045	38,200	32,380
BENEFITS AND EXPENSES			
Policyholders' benefits	23,614	18,285	16,346
Interest credited to policyholders' account balances	4,484	4,209	4,484
Dividends to policyholders	2,723	2,189	1,298
Amortization of deferred policy acquisition costs	3,292	1,437	1,494
General and administrative expenses	9,815	7,688	7,234
Total benefits and expenses	43,928	33,808	30,856
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	5,117	4,392	1,524
Income taxes:			
Current	447	(368)	(116)
Deferred	1,152	1,671	54
Total income tax expense (benefit)	1,599	1,303	(62)
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	3,518	3,089	1,586
Equity in earnings of operating joint ventures, net of taxes	185	84	1,523
INCOME FROM CONTINUING OPERATIONS	3,703	3,173	3,109
Income (loss) from discontinued operations, net of taxes	35	33	(19)
NET INCOME	3,738	3,206	3,090
Less: Income (loss) attributable to noncontrolling interests	72	11	(34)
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ 3,666	$ 3,195	$ 3,124
EARNINGS PER SHARE (See Note 16)			
Financial Services Businesses			
Basic:			
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 7.23	$ 5.75	$ 7.72
Income (loss) from discontinued operations, net of taxes	0.08	0.07	(0.04)
Net income attributable to Prudential Financial, Inc. per share of Common Stock	$ 7.31	$ 5.82	$ 7.68
Diluted:			
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 7.14	$ 5.68	$ 7.67
Income (loss) from discontinued operations, net of taxes	0.08	0.07	(0.04)
Net income attributable to Prudential Financial, Inc. per share of Common Stock	$ 7.22	$ 5.75	$ 7.63
Dividends declared per share of Common Stock	$ 1.45	$ 1.15	$ 0.70
Closed Block Business			
Basic and Diluted:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	$ 55.50	$222.00	$(165.00)
Income from discontinued operations, net of taxes	0.00	0.50	0.00
Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	$ 55.50	$222.50	$(165.00)
Dividends declared per share of Class B Stock	$ 9.625	$ 9.625	$ 9.625

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Equity(1)
Years Ended December 31, 2011, 2010 and 2009 (in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2008	$6	$22,001	$10,426	$(11,655)	$(7,343)	$13,435	$351	$13,786
Common Stock issued		1,391				1,391		1,391
Contributions from noncontrolling interests							277	277
Distributions to noncontrolling interests							(31)	(31)
Consolidations/deconsolidations of noncontrolling interests		(63)				(63)	(22)	(85)
Stock-based compensation programs		15	(76)	265		204		204
Dividends declared on Common Stock			(327)			(327)		(327)
Dividends declared on Class B Stock			(19)			(19)		(19)
Impact on Company's investment in Wachovia Securities due to addition of A.G Edwards business, net of tax(2)		(109)				(109)		(109)
Impact of adoption of guidance for other-than-temporary impairments of debt securities, net of taxes			659		(659)	0		0
Comprehensive income:								
Net income			3,124			3,124	(34)	3,090
Other comprehensive income (loss), net of tax					7,559	7,559	(7)	7,552
Total comprehensive income (loss)						10,683	(41)	10,642
Balance, December 31, 2009	6	23,235	13,787	(11,390)	(443)	25,195	534	25,729
Common Stock issued		970				970		970
Contributions from noncontrolling interests							7	7
Distributions to noncontrolling interests							(53)	(53)
Consolidations/deconsolidations of noncontrolling interests		(2)				(2)	(1)	(3)
Stock-based compensation programs		20	(18)	217		219		219
Dividends declared on Common Stock			(564)			(564)		(564)
Dividends declared on Class B Stock			(19)			(19)		(19)
Comprehensive income:								
Net income			3,195			3,195	11	3,206
Other comprehensive income (loss), net of tax					3,421	3,421	15	3,436
Total comprehensive income (loss)						6,616	26	6,642
Balance, December 31, 2010	6	24,223	16,381	(11,173)	2,978	32,415	513	32,928
Common Stock acquired				(999)		(999)		(999)
Contributions from noncontrolling interests						0	9	9
Distributions to noncontrolling interests						0	(15)	(15)
Consolidations/deconsolidations of noncontrolling interests		0				0	53	53
Stock-based compensation programs		70	(58)	252		264		264
Dividends declared on Common Stock			(689)			(689)		(689)
Dividends declared on Class B Stock			(19)			(19)		(19)
Comprehensive income:								
Net income			3,666			3,666	72	3,738
Other comprehensive income (loss), net of tax					2,585	2,585	(44)	2,541
Total comprehensive income (loss)						6,251	28	6,279
Balance, December 31, 2011	$6	$24,293	$19,281	$(11,920)	$ 5,563	$37,223	$588	$37,811

(1) Class B Stock is not presented as the amounts are immaterial.
(2) See Note 7.

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2011, 2010 and 2009 (in millions)

	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,738	$ 3,206	$ 3,090
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment (gains) losses, net	(2,831)	(1,050)	2,897
Policy charges and fee income	(1,147)	(976)	(1,152)
Interest credited to policyholders' account balances	4,484	4,209	4,484
Depreciation and amortization	290	(104)	175
(Gains) losses on trading account assets supporting insurance liabilities, net	(235)	(501)	(1,601)
Gain on sale of joint venture in Wachovia Securities	0	0	(2,247)
Change in:			
Deferred policy acquisition costs	(605)	(1,654)	(1,277)
Future policy benefits and other insurance liabilities	6,761	4,475	2,524
Other trading account assets	329	(644)	45
Income taxes	(83)	(1,133)	1,101
Other, net	1,676	714	(2,199)
Cash flows from operating activities	12,377	6,542	5,840
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale	42,548	28,561	42,221
Fixed maturities, held-to-maturity	455	470	378
Trading account assets supporting insurance liabilities and other trading account assets	22,388	39,150	38,782
Equity securities, available-for-sale	3,742	2,485	2,246
Commercial mortgage and other loans	4,814	4,379	3,767
Policy loans	2,035	1,714	1,688
Other long-term investments	2,120	1,071	1,160
Short-term investments	27,098	20,896	25,905
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale	(52,045)	(38,213)	(42,911)
Fixed maturities, held-to-maturity	(76)	(199)	(1,122)
Trading account assets supporting insurance liabilities and other trading account assets	(23,684)	(39,744)	(40,085)
Equity securities, available-for-sale	(3,080)	(2,461)	(1,665)
Commercial mortgage and other loans	(6,829)	(4,760)	(2,755)
Policy loans	(1,815)	(1,547)	(1,593)
Other long-term investments	(1,865)	(824)	(1,018)
Short-term investments	(26,962)	(19,922)	(26,876)
Proceeds from sale of joint venture in Wachovia Securities	0	0	4,500
Acquisitions, net of cash acquired.	(2,321)	0	0
Other, net	182	422	(193)
Cash flows from (used in) investing activities	(13,295)	(8,522)	2,429
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholders' account deposits	24,336	22,271	23,464
Policyholders' account withdrawals	(22,564)	(22,176)	(26,187)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	1,126	(863)	(2,677)
Proceeds from the issuance of Common Stock	0	970	1,391
Cash dividends paid on Common Stock	(685)	(556)	(328)
Cash dividends paid on Class B Stock	(19)	(19)	(19)
Net change in financing arrangements (maturities 90 days or less)	104	684	(4,566)
Common Stock acquired	(999)	0	0
Common Stock reissued for exercise of stock options	122	98	64
Proceeds from the issuance of debt (maturities longer than 90 days)	2,266	4,561	5,314
Repayments of debt (maturities longer than 90 days)	(1,739)	(3,738)	(7,130)
Excess tax benefits from share-based payment arrangements	20	12	2
Other, net	131	369	251
Cash flows from (used in) financing activities	2,099	1,613	(10,421)
Effect of foreign exchange rate changes on cash balances	155	118	288
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,336	(249)	(1,864)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,915	13,164	15,028
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,251	$ 12,915	$ 13,164
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid (received)	$ 809	$ 893	$ (109)
Interest paid	$ 1,285	$ 1,197	$ 1,181
NON-CASH TRANSACTIONS DURING THE YEAR			
Impact on Company's investment in Wachovia Securities due to addition of A.G. Edwards business, net of tax	$ 0	$ 0	$ (109)
Treasury Stock shares issued for stock-based compensation programs	$ 77	$ 74	$ 100

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial”) and its subsidiaries (collectively, “Prudential” or the “Company”) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds, and investment management. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance. The Company’s businesses that are not sufficiently material to warrant separate disclosure and divested businesses, are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 12), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company’s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholders’ dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company ceased offering these participating products.

Demutualization

On December 18, 2001 (the “date of demutualization”), The Prudential Insurance Company of America (“Prudential Insurance”) converted from a mutual life insurance company to a stock life insurance company and became an indirect, wholly-owned subsidiary of Prudential Financial. At the time of demutualization Prudential Financial issued two classes of common stock, both of which remain outstanding. The Common Stock, which is publicly traded, reflects the performance of the Financial Services Businesses, and the Class B Stock, which was issued through a private placement, reflects the performance of the Closed Block Business.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company’s consolidated variable interest entities. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Intercompany balances and transactions have been eliminated.

The Company’s Gibraltar Life Insurance Company, Ltd. (“Gibraltar Life”) consolidated operations and the recently acquired AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively the “Star and Edison Businesses”) use a November 30 fiscal year end for purposes of inclusion in the Company’s Consolidated Financial Statements. Therefore, the Consolidated Financial Statements as of December 31, 2011 and 2010 include the assets and liabilities of Gibraltar Life as of November 30, 2011 and 2010, respectively, and for the years ended December 31, 2011, 2010 and 2009, include Gibraltar Life’s results of operations for the twelve months ended November 30, 2011, 2010 and 2009, respectively. The Consolidated Financial Statements as of December 31, 2011, include the assets and liabilities of the Star and Edison Businesses as of November 30, 2011 and the results of operations for the Star and Edison Businesses from February 1, 2011, the acquisition date, through November 30, 2011.

Use of Estimates

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

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

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Share-Based Payments

The Company recognizes the cost resulting from all share-based payments in accordance with the authoritative guidance on accounting for stock based compensation and applies the fair value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. The Company accounts for excess tax benefits in additional paid-in capital as a single “pool” available to all share-based compensation awards. The Company does not recognize excess tax benefits in additional paid-in capital until the benefits result in a reduction in taxes payable. The Company has elected the “tax-law ordering methodology” and has adopted a convention that considers excess tax benefits to be the last portion of a net operating loss carryforward to be utilized.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

The Company accounts for non-employee stock options using the fair value method in accordance with authoritative guidance and related interpretations on accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services.

Earnings Per Share

As discussed in Note 1, the Company has outstanding two separate classes of common stock. Basic earnings per share is computed by dividing available income attributable to each of the two groups of common shareholders by the respective weighted average number of common shares outstanding for the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period.

As discussed under "Share-Based Payments" above, the Company accounts for excess tax benefits in additional paid-in capital as a single "pool" available to all share-based compensation awards. The Company reflects in assumed proceeds, based on application of the treasury stock method, the excess tax benefits that would be recognized in additional paid-in capital upon exercise or release of the award.

Investments and Investment-Related Liabilities

The Company's principal investments are fixed maturities; equity securities; commercial mortgage and other loans; policy loans; other long-term investments, including joint ventures (other than operating joint ventures), limited partnerships, and real estate; and short-term investments. Investments and investment-related liabilities also include securities repurchase and resale agreements and securities lending transactions. The accounting policies related to each are as follows:

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as "available-for-sale" are carried at fair value. See Note 20 for additional information regarding the determination of fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as "held-to-maturity." The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount, is included in "Net investment income" under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions can significantly impact income recognition and the amount of other-than-temporary impairments recognized in earnings and other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For asset-backed and mortgage-backed securities rated below AA, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Unrealized gains and losses on fixed maturities classified as "available-for-sale," net of tax, and the effect on deferred policy acquisition costs, value of business acquired, deferred sales inducements, future policy benefits and policyholders' dividends that would result from the realization of unrealized gains and losses, are included in "Accumulated other comprehensive income (loss)."

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

Commercial mortgage and other loans consist of commercial mortgage loans, agricultural loans, loans backed by residential properties, as well as certain other collateralized and uncollateralized loans. Commercial mortgage loans are broken down by class which is based on property type (industrial properties, retail, office, multi-family/apartment, hospitality, and other). Loans backed by residential properties primarily include recourse loans held by the Company's international insurance businesses. Other collateralized loans primarily include senior loans made by the Company's international insurance businesses and loans made to the Company's real estate franchisees. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company's international insurance businesses.

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

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

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

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

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

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

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

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

"Policy loans" are carried at unpaid principal balances. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies.

Securities repurchase and resale agreements and securities loaned transactions are used to earn spread income, to borrow funds, or to facilitate trading activity. Securities repurchase and resale agreements are generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value. As part of securities repurchase agreements or securities loaned transactions, the Company transfers either corporate debt securities, or U.S. government and government agency securities and receives cash as collateral. As part of securities resale agreements, the Company transfers cash as collateral and receives U.S. government securities. For securities repurchase agreements and securities loaned transactions used to earn spread income, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities.

Securities repurchase and resale agreements that satisfy certain criteria are treated as collateralized financing arrangements. These agreements are carried at the amounts at which the securities will be subsequently resold or reacquired, as specified in the respective agreements. For securities purchased under agreements to resell, the Company's policy is to take possession or control of the securities and to value the securities daily. Securities to be resold are the same, or substantially the same, as the securities received. For securities sold under agreements to repurchase, the market value of the securities to be repurchased is monitored, and additional collateral is obtained where appropriate, to protect against credit exposure. Securities to be repurchased are the same, or substantially the same, as those sold. Income and expenses related to these transactions executed within the insurance companies used to earn spread income are reported as "Net investment income;" however, for transactions used to borrow funds, the associated borrowing cost is reported as interest expense (included in "General and administrative expenses"). Income and expenses related to these transactions executed within the Company's

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

derivative operations are reported in "Asset management fees and other income." Income and expenses related to these transactions executed within the Company's global commodities group are reported in "Income from discontinued operations, net of taxes."

Securities loaned transactions are treated as financing arrangements and are recorded at the amount of cash received. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities loaned transactions are with large brokerage firms. Income and expenses associated with securities loaned transactions used to earn spread income are reported as "Net investment income;" however, for securities loaned transactions used for funding purposes the associated rebate is reported as interest expense (included in "General and administrative expenses").

"Other long-term investments" consist of the Company's investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments. Joint venture and partnership interests are generally accounted for using the equity method of accounting. In certain instances in which the Company's partnership interest is so minor (generally less than 3%) that it exercises virtually no influence over operating and financial policies, the Company applies the cost method of accounting. The Company's income from investments in joint ventures and partnerships accounted for using the equity method or the cost method, other than the Company's investment in operating joint ventures, is included in "Net investment income." The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method or the cost method (including assessment for other-than-temporary impairment), the Company uses financial information provided by the investee, generally on a one to three month lag. The Company consolidates joint ventures and limited partnerships in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a variable interest entity. Certain of these consolidated joint ventures and limited partnerships relate to investment structures in which the Company's asset management business invests with other co-investors in an investment fund referred to as a feeder fund. In these structures, the invested capital of several feeder funds is pooled together and used to purchase ownership interests in another fund, referred to as a master fund. The master fund utilizes this invested capital, and in certain cases other debt financing, to purchase various classes of assets on behalf of its investors. Specialized industry accounting for investment companies calls for the feeder fund to reflect its investment in the master fund as a single net asset equal to its proportionate share of the net assets of the master fund, regardless of its level of interest in the master fund. In cases where the Company consolidates the feeder fund, it retains the feeder fund's net asset presentation and reports the consolidated feeder fund's proportionate share of the net assets of the master fund in "Other long-term investments," with any unaffiliated investors' noncontrolling interest in the feeder fund reported in "Other liabilities" or "Noncontrolling interests." The Company's net income from consolidated joint ventures and limited partnerships, including these consolidated feeder funds, is included in the respective revenue and expense line items depending on the activity of the consolidated entity.

The Company's wholly-owned investment real estate consists of real estate which the Company has the intent to hold for the production of income as well as real estate held for sale. Real estate which the Company has the intent to hold for the production of income is carried at depreciated cost less any writedowns to fair value for impairment losses and is reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such. An impairment loss is recognized when the carrying value of the investment real estate exceeds the estimated undiscounted future cash flows (excluding interest charges) from the investment. At that time, the carrying value of the investment real estate is written down to fair value. Decreases in the carrying value of investment real estate held for the production of income due to other-than-temporary impairments are recorded in "Realized investment gains (losses), net." Depreciation on real estate held for the production of income is computed using the straight-line method over the estimated lives of the properties, and is included in "Net investment income." In the period a real estate investment is deemed held for sale and meets all of the discontinued operation criteria, the Company reports all related net investment income and any resulting investment gains and losses as discontinued operations for all periods presented.

"Short-term investments" primarily consist of highly liquid debt instruments with a maturity of greater than three months and less than twelve months when purchased, other than those debt instruments meeting this definition that are included in "Trading account assets supporting insurance liabilities, at fair value." These investments are generally carried at fair value and include certain money market investments, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments. Short-term investments held in the Company's former broker-dealer operations were marked-to-market through "Income from discontinued operations, net of taxes."

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

The Company's available-for-sale and held-to-maturity securities with unrealized losses are reviewed quarterly to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, the Company considers several factors

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

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

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

Under the authoritative guidance for the recognition and presentation of other-than-temporary impairments, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the debt security meets either of these two criteria or the foreign currency translation loss is not expected to be recovered before maturity, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security's amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt security and its net present value calculated as described above. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in "Other comprehensive income (loss)." Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in earnings is tracked as a separate component of "Accumulated other comprehensive income (loss)."

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

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments and other debt instruments with maturities of three months or less when purchased, other than cash equivalents that are included in "Trading account assets supporting insurance liabilities, at fair value."

Deferred Policy Acquisition Costs

Costs that vary with and that are related primarily to the production of new insurance and annuity business are deferred to the extent such costs are deemed recoverable from future profits. Such deferred policy acquisition costs ("DAC") include commissions, costs of policy issuance and underwriting, and variable field office expenses that are incurred in producing new business. See below under "Future Adoption of New Accounting Pronouncements" 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. In each reporting period, capitalized DAC is amortized to "Amortization of deferred policy acquisition costs," net of the accrual of imputed interest on DAC balances. DAC is subject to recoverability testing at the end of each reporting period to ensure that the balance does not exceed the present

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

value of anticipated gross profits, anticipated gross margins, or premiums less benefits and maintenance expenses, as applicable. DAC, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in "Accumulated other comprehensive income (loss)."

For traditional participating life insurance included in the Closed Block, DAC is amortized over the expected life of the contracts (up to 45 years) in proportion to gross margins based on historical and anticipated future experience, which is evaluated regularly. The effect of changes in estimated gross margins on unamortized DAC is reflected in "Amortization of deferred policy acquisition costs" in the period such estimated gross margins are revised. Policy acquisition costs related to interest-sensitive and variable life products and fixed and variable deferred annuity products are deferred and amortized over the expected life of the contracts (periods ranging from 25 to 99 years) in proportion to gross profits arising principally from investment results, mortality and expense margins, and surrender charges, based on historical and anticipated future experience, which is updated periodically. The Company uses a reversion to the mean approach to derive the blended future rate of return assumptions. However, if the projected future rate of return calculated using this approach is greater than the maximum future rate of return assumption, the maximum future rate of return is utilized in deriving the blended future rate of return assumption. In addition to the gross profit components previously mentioned, the impact of the embedded derivatives associated with certain optional living benefit features of the Company's variable annuity contracts and related hedging activities are also included in actual gross profits used as the basis for calculating current period amortization and, in certain instances, in management's estimate of total gross profits used for setting the amortization rate. The effect of changes to estimated gross profits on unamortized DAC is reflected in "Amortization of deferred policy acquisition costs" in the period such estimated gross profits are revised. DAC related to non-participating traditional individual life insurance is amortized in proportion to gross premiums.

For group annuity contracts, acquisition expenses are deferred and amortized over the expected life of the contracts in proportion to gross profits. For group corporate-, bank- and trust-owned life insurance contracts, acquisition costs are deferred and amortized in proportion to lives insured. For group and individual long-term care contracts, acquisition expenses are deferred and amortized in proportion to gross premiums. For single premium immediate annuities with life contingencies, and single premium group annuities and single premium structured settlements with life contingencies, all acquisition costs are charged to expense immediately because generally all premiums are received at the inception of the contract. For funding agreement notes contracts, single premium structured settlement contracts without life contingencies, and single premium immediate annuities without life contingencies, acquisition expenses are deferred and amortized over the expected life of the contracts using the interest method. For other group life and disability insurance contracts and guaranteed investment contracts, acquisition costs are expensed as incurred.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, except those that involve the addition of a nonintegrated contract feature that does not change the existing base contract, the unamortized DAC is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new terms are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies.

Separate Account Assets and Liabilities

Separate account assets are reported at fair value and represent segregated funds that are invested for certain policyholders, pension funds and other customers. The assets consist primarily of equity securities, fixed maturities, real estate-related investments, real estate mortgage loans, short-term investments and derivative instruments. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities primarily represent the contractholder's account balance in separate account assets and to a lesser extent borrowings of the separate account, and will be equal and offsetting to total separate account assets. See Note 11 for additional information regarding separate account arrangements with contractual guarantees. The investment income and realized investment gains or losses from separate account assets generally accrue to the policyholders and are not included in the Company's results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in "Policy charges and fee income." Asset management fees charged to the accounts are included in "Asset management fees and other income." Seed money that the Company invests in separate accounts is reported in the appropriate general account asset line. Investment income and realized investment gains or losses from seed money invested in separate accounts accrues to the Company and is included in the Company's results of operations.

Other Assets and Other Liabilities

Other assets consist primarily of prepaid pension benefit costs, certain restricted assets, trade receivables, value of business acquired, goodwill and other intangible assets, deferred sales inducements, the Company's investments in operating joint ventures, which include the Company's indirect investment in China Pacific Insurance (Group) Co., Ltd. ("China Pacific Group"), property and equipment, reinsurance recoverables, and receivables resulting from sales of securities that had not yet settled at the balance sheet date. Other liabilities consist primarily of trade payables, pension and other employee benefit liabilities, derivative liabilities, reinsurance payables, and payables resulting from purchases of securities that had not yet settled at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

Property and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally range from 3 to 40 years.

As a result of certain acquisitions and the application of purchase accounting, the Company reports a financial asset representing the value of business acquired ("VOBA"). VOBA includes an explicit adjustment to reflect the cost of capital attributable to the acquired insurance contracts. VOBA represents an adjustment to the stated value of inforce insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA balances are subject to recoverability testing, in the manner in which it was acquired, at the end of each reporting period to ensure that the balance does not exceed the present value of anticipated gross profits. The Company has established a VOBA asset primarily for its acquired traditional life insurance products, accident and health products with fixed benefits, deferred annuity contracts, and defined contribution and defined benefit businesses. The majority of the VOBA balance relates to the business acquired as part of the acquisition of the Star and Edison Businesses in 2011. For acquired traditional life insurance contracts and accident and health products with fixed benefits, future positive cash flows generally include net premiums while future negative cash flows include policyholders' benefits and certain maintenance expenses. For acquired annuity contracts, future positive cash flows generally include fees and other charges assessed to the contracts as long as they remain in force as well as fees collected upon surrender, if applicable, while future negative cash flows include costs to administer contracts and benefit payments. In addition, future cash flows with respect to acquired annuity business include the impact of future cash flows expected from the guaranteed minimum death and income benefit provisions. For acquired defined contribution and defined benefits businesses, contract balances are projected using assumptions for add-on deposits, participant withdrawals, contract surrenders, and investment returns. Gross profits are then determined based on investment spreads and the excess of fees and other charges over the costs to administer the contracts. The Company amortizes VOBA over the effective life of the acquired contracts in "General and administrative expenses." For acquired traditional life insurance products and accident and health products with fixed benefits, VOBA is amortized in proportion to estimated gross premiums or in proportion to the face amount of insurance in force, as applicable. For acquired annuity contracts, VOBA is amortized in proportion to estimated gross profits arising from the contracts and anticipated future experience, which is evaluated regularly. For acquired defined contribution and defined benefit businesses, the majority of VOBA is amortized in proportion to estimated gross profits arising principally from investment spreads and fees in excess of actual expense based upon historical and estimated future experience, which is updated periodically. The remainder of VOBA is amortized based on estimated gross revenues, fees, or the change in policyholders' account balances, as applicable. The effect of changes in estimated gross profits on unamortized VOBA is reflected in the period such estimates of expected future profits are revised. See Note 8 for additional information regarding VOBA and Note 3 for additional information regarding the VOBA asset related to the acquisition of the Star and Edison Businesses.

As a result of certain acquisitions, including the acquisition of the Star and Edison Businesses, the Company recognizes an asset for goodwill representing the excess of cost over the net fair value of the assets acquired and liabilities assumed. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is an operating segment or a unit one level below the operating segment, if discrete financial information is prepared and regularly reviewed by management at that level. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The fundamental goodwill impairment analysis is a two-step test that is performed at the reporting unit level. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of a potential impairment and the second step of the test is performed to measure the amount of impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill in the "pro forma" business combination accounting as described above exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded in "General and administrative expenses" for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management is required to make significant estimates in determining the fair value of a reporting unit including, but not limited to: projected earnings, comparative market multiples, and the risk rate at which future net cash flows are discounted.

In accordance with recently issued accounting guidance, the Company may first perform a qualitative goodwill assessment to determine whether events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test, as described above, is not necessary. If, however, the Company concludes otherwise, then the Company must perform the first step of the two-step impairment test by comparing the reporting unit's fair value with its carrying value including goodwill. If the carrying value exceeds fair value, then the Company must perform the second step of the goodwill impairment test to measure the impairment loss, if any. Further details of this recently issued guidance are provided under "Adoption of New Accounting Pronouncements," below.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

See Note 9 for additional information regarding goodwill.

The Company offers various types of sales inducements to policyholders related to fixed and variable deferred annuity contracts. The Company defers sales inducements and amortizes them over the anticipated life of the policy using the same methodology and assumptions used to amortize DAC. Sales inducements balances are 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. The Company records amortization of deferred sales inducements in "Interest credited to policyholders' account balances." See Note 11 for additional information regarding sales inducements.

The majority of the Company's reinsurance recoverables and payables are receivables and corresponding payables associated with the reinsurance arrangements used to effect the Company's acquisition of the retirement businesses of CIGNA. The remaining amounts relate to other reinsurance arrangements entered into by the Company. For each of its reinsurance contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. See Note 13 for additional information about the Company's reinsurance arrangements.

Identifiable intangible assets are recorded net of accumulated amortization. The Company tests identifiable intangible assets for impairment on an annual basis as of December 31 of each year or whenever events or circumstances suggest that the carrying value of an identifiable intangible asset may exceed the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If this condition exists and the carrying value of an identifiable intangible asset exceeds its fair value, the excess is recognized as an impairment and is recorded as a charge against net income. Measuring intangibles requires the use of estimates. Significant estimates include the projected net cash flow attributable to the intangible asset and the risk rate at which future net cash flows are discounted for purposes of estimating fair value, as applicable. Identifiable intangible assets primarily include customer relationships and mortgage servicing rights. See Note 9 for additional information regarding identifiable intangible assets.

Investments in operating joint ventures are generally accounted for under the equity method. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. See Note 7 for additional information on investments in operating joint ventures.

Future Policy Benefits

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For individual traditional participating life insurance products, the mortality and interest rate assumptions applied are those used to calculate the policies' guaranteed cash surrender values. For life insurance, other than individual traditional participating life insurance, and annuity and disability products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves, if required, are determined based on assumptions at the time the premium deficiency reserve is established and do not include a provision for the risk of adverse deviation. See Note 10 for additional information regarding future policy benefits.

The Company's liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish claim liabilities until a loss has occurred. However, unpaid claims and claim adjustment expenses includes estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The Company's liability for future policy benefits also includes net liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 11, and certain unearned revenues.

Policyholders' Account Balances

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is generally equal to the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance. These policyholders' account balances also include provision for benefits under non-life contingent payout annuities and certain unearned revenues. See Note 10 for additional information regarding policyholders' account balances.

Policyholders' Dividends

The Company's liability for policyholders' dividends includes its dividends payable to policyholders and its policyholder dividend obligation associated with the participating policies included in the Closed Block. The dividends payable for participating policies included in the Closed Block are determined at the end of each year for the following year by the Board of Directors of Prudential Insurance based on its statutory results, capital position, ratings, and the emerging experience of the Closed Block. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

Closed Block performance that is less favorable than originally expected, the components of which are discussed more fully in Note 12. The dividends payable for policies other than the participating policies included in the Closed Block include dividends payable in accordance with certain group and individual insurance policies.

Contingent Liabilities

Amounts related to contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual.

Insurance Revenue and Expense Recognition

Premiums from individual life products, other than interest-sensitive life contracts, and health insurance and long-term care products are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium (i.e., the portion of the gross premium required to provide for all expected future benefits and expenses) is deferred and recognized into revenue in a constant relationship to insurance in force. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium method.

Premiums from non-participating group annuities with life contingencies, single premium structured settlements with life contingencies and single premium immediate annuities with life contingencies are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium is deferred and recognized into revenue in a constant relationship to the amount of expected future benefit payments. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net premium method.

Certain individual annuity contracts provide the holder a guarantee that the benefit received upon death or annuitization will be no less than a minimum prescribed amount. These benefits are accounted for as insurance contracts and are discussed in further detail in Note 11. The Company also provides contracts with certain living benefits which are considered embedded derivatives. These contracts are discussed in further detail in Note 11.

Amounts received as payment for interest-sensitive group and individual life contracts, deferred fixed annuities, structured settlements and other contracts without life contingencies, and participating group annuities are reported as deposits to "Policyholders' account balances." Revenues from these contracts are reflected in "Policy charges and fee income" consisting primarily of fees assessed during the period against the policyholders' account balances for mortality charges, policy administration charges and surrender charges. In addition to fees, the Company earns investment income from the investment of policyholders' deposits in the Company's general account portfolio. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are deferred and amortized into revenue over the life of the related contracts in proportion to estimated gross profits. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited to policyholders' account balances and amortization of DAC.

For group life, other than interest-sensitive group life contracts, and disability insurance, premiums are recognized over the period to which the premiums relate in proportion to the amount of insurance protection provided. Claim and claim adjustment expenses are recognized when incurred.

Premiums, benefits and expenses are stated net of reinsurance ceded to other companies, except for amounts associated with certain modified coinsurance contracts which are reflected in the Company's financial statements based on the application of the deposit method of accounting. Estimated reinsurance recoverables and the cost of reinsurance are recognized over the life of the reinsured policies using assumptions consistent with those used to account for the underlying policies.

Asset Management Fees and Other Income

"Asset management fees and other income" principally include asset management fees and securities and commodities commission revenues, which are recognized in the period in which the services are performed. Realized and unrealized gains or losses from investments classified as "trading" such as "Trading account assets supporting insurance liabilities" and "Other trading account assets," short-term investments that are marked-to-market through other income, and from consolidated entities that follow specialized investment company fair value accounting are also included in "Asset management fees and other income." In certain asset management fee arrangements, the Company is entitled to receive performance based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. Performance based incentive fee revenue is accrued quarterly based on measuring fund performance to date versus the performance benchmark stated in the investment management agreement. Certain performance based incentive fees are also subject to future adjustment based on cumulative fund performance in relation to these specified benchmarks.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

Foreign Currency

Assets and liabilities of foreign operations and subsidiaries reported in currencies other than U.S. dollars are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. The effects of translating the statements of operations and financial position of non-U.S. entities with functional currencies other than the U.S. dollar are included, net of related qualifying hedge gains and losses and income taxes, in "Accumulated other comprehensive income (loss)." Gains and losses from foreign currency transactions are reported in either "Accumulated other comprehensive income (loss)" or current earnings in "Asset management fees and other income" depending on the nature of the related foreign currency denominated asset or liability.

Derivative Financial Instruments

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

Derivatives are used in a non-broker-dealer capacity to manage the interest rate and currency characteristics of assets or liabilities and to mitigate volatility of expected non-U.S. earnings and net investments in foreign operations resulting from changes in currency exchange rates. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 21, all realized and unrealized changes in fair value of non-broker-dealer related derivatives are recorded in current earnings, with the exception of the effective portion of cash flow hedges and effective hedges of net investments in foreign operations. Cash flows from derivatives are reported in the operating, investing, or financing activities sections in the Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

Derivatives were also used in a derivative broker-dealer capacity in the Company's global commodities group to meet the needs of clients by structuring transactions that allow clients to manage their exposure to interest rates, foreign exchange rates, indices and prices of securities and commodities. The Company's global commodities group was sold on July 1, 2011. See Note 3 for further details. Realized and unrealized changes in fair value of derivatives used in these dealer related operations are included in "Income from discontinued operations, net of taxes" in the periods in which the changes occur. Cash flows from such derivatives are reported in the operating activities section of the Consolidated Statements of Cash Flows.

Derivatives are recorded either as assets, within "Other trading account assets, at fair value" or "Other long-term investments," or as liabilities, within "Other liabilities," except for embedded derivatives which are recorded with the associated host contract. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

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

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

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

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

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

Short-Term and Long-Term Debt

Liabilities for short-term and long-term debt are primarily carried at an amount equal to unpaid principal balance, net of unamortized discount or premium. Original-issue discount or premium and debt-issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding, using the interest method of amortization. Short-term debt is debt coming due in the next twelve months, including that portion of debt otherwise classified as long-term. The short-term debt caption may exclude short-term items the Company intends to refinance on a long-term basis in the near term. See Note 14 for additional information regarding short-term and long-term debt.

Income Taxes

The Company and its eligible domestic subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. Subsidiaries operating outside the U.S. are taxed, and income tax expense is recorded, based on applicable foreign statutes. See Note 19 for a discussion of certain non-U.S. jurisdictions for which the Company assumes repatriation of earnings to the U.S.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to reduce a deferred tax asset to the amount expected to be realized.

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 19 for additional information regarding income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

Adoption of New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued updated guidance regarding the application of the goodwill impairment test. The updated guidance allows an entity to first perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. However, if an entity concludes otherwise, then it must perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the impairment loss, if any. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and to proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The updated guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company's early adoption of this guidance, as permitted, effective December 31, 2011, did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

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

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

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

In July 2010, the FASB issued updated guidance that requires enhanced disclosures related to the allowance for credit losses and the credit quality of a company's financing receivable portfolio. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The Company adopted this guidance effective December 31, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning after December 15, 2010. The required disclosures are included above and in Note 4. In January 2011, the FASB deferred the disclosures required by this guidance related to troubled debt restructurings. These disclosures are effective for the first interim or annual reporting period beginning on or after June 15, 2011, concurrent with the effective date of guidance for determining what constitutes a troubled debt restructuring. The disclosures required by this guidance related to troubled debt restructurings were adopted in the third quarter of 2011 and are included above and in Note 4.

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

In March 2010, the FASB issued updated guidance that amends and clarifies the accounting for credit derivatives embedded in interests in securitized financial assets. This new guidance eliminates the scope exception for embedded credit derivatives (except for those that are created solely by subordination) and provides new guidance on how the evaluation of embedded credit derivatives is to be performed. This new guidance is effective for the first interim reporting period beginning after June 15, 2010. The Company's adoption of

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

this guidance effective with the interim reporting period ending September 30, 2010 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In January 2010, the FASB issued updated guidance that requires new fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the roll forward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about level of disaggregation and valuation techniques and inputs. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of Level 3 activity, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the guidance effective for interim and annual reporting periods beginning after December 15, 2009 on January 1, 2010. The Company adopted the guidance effective for interim and annual reporting periods beginning after December 15, 2010 on January 1, 2011. The required disclosures are provided in Note 20.

In June 2009, the FASB issued authoritative guidance which changes the analysis required to determine whether or not an entity is a variable interest entity ("VIE"). In addition, the guidance changes the determination of the primary beneficiary of a VIE from a quantitative to a qualitative model. Under the new qualitative model, the primary beneficiary must have both the ability to direct the activities of the VIE and the obligation to absorb either losses or gains that could be significant to the VIE. This guidance also changes when reassessment is needed, as well as requires enhanced disclosures, including the effects of a company's involvement with a VIE on its financial statements. This guidance is effective for interim and annual reporting periods beginning after November 15, 2009. In February 2010, the FASB issued updated guidance which defers, except for disclosure requirements, the impact of this guidance for entities that (1) possess the attributes of an investment company, (2) do not require the reporting entity to fund losses, and (3) are not financing vehicles or entities that were formerly classified as qualified special purpose entities ("QSPE's"). The Company's adoption of this guidance effective January 1, 2010 did not have a material effect on the Company's consolidated financial position and results of operations. The disclosures required by this revised guidance are provided in Note 5.

In June 2009, the FASB issued authoritative guidance which changes the accounting for transfers of financial assets, and is effective for transfers of financial assets occurring in interim and annual reporting periods beginning after November 15, 2009. It removes the concept of a QSPE from the guidance for transfers of financial assets and removes the exception from applying the guidance for consolidation of variable interest entities to qualifying special-purpose entities. It changes the criteria for achieving sale accounting when transferring a financial asset and changes the initial recognition of retained beneficial interests. The guidance also defines "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. The Company's adoption of this guidance effective January 1, 2010 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

Future Adoption of New Accounting Pronouncements

In December 2011, the FASB issued updated guidance regarding the disclosure of offsetting assets and liabilities. This new guidance requires an entity to disclose information on both a gross basis and net basis about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This new guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim reporting periods within those years, and should be applied retrospectively for all comparative periods presented. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In December 2011, the FASB issued updated guidance clarifying the accounting for when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. This new guidance is effective for annual reporting periods beginning on or after June 15, 2012, and interim reporting periods within those years, and should be applied prospectively. Early adoption is permitted. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS *(continued)*

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

In April 2011, the FASB issued updated guidance regarding the assessment of effective control for repurchase agreements. This new guidance is effective for the first interim or annual reporting period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Company's adoption of this guidance effective January 1, 2012 is not expected to have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In October 2010, the FASB issued authoritative guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. Under the amended guidance, acquisition costs are to include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs. An entity may defer incremental direct costs of contract acquisition with independent third parties or employees that are essential to the contract transaction, as well as the portion of employee compensation, including payroll fringe benefits, and other costs directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. This amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and permits, but does not require, retrospective application. The Company will adopt this guidance effective January 1, 2012, and will apply the retrospective method of adoption. Accordingly upon adoption, "Deferred policy acquisition costs" will be reduced and policy reserves for certain limited payment contracts within "Future policy benefits" will be increased with a corresponding reduction, net of taxes, to "Retained earnings" (and "Total equity"), as a result of acquisition costs previously deferred that are not eligible for deferral under the amended guidance. The Company estimates if the amended guidance were adopted as of December 31, 2011, retrospective adoption would reduce "Deferred policy acquisition costs" by approximately $3.8 billion to $4.6 billion, increase "Future policy benefits" by approximately $0.2 billion to $0.3 billion, and reduce "Total equity" by approximately $2.7 billion to $3.1 billion. Subsequent to the adoption of the guidance, the lower level of costs qualifying for deferral may be only partially offset by a lower level of amortization of "Deferred policy acquisition costs", and, as such, may initially result in lower earnings in future periods, primarily within the International Insurance and Individual Annuities segments. The impact to the International Insurance segment largely reflects lower deferrals of allocated costs of its proprietary distribution system, while the impact to the Individual Annuities segment 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.

3. ACQUISITIONS AND DISPOSITIONS

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

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

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

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

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

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

Net Assets Acquired

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

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

(1) Total invested assets, at fair value, include $55 million of related party assets. Other assets include $86 million of related party assets.
(2) Reflects revisions to prior period presentation for correction of treatment of certain acquired policies and refinements to certain data.
(3) Reflects reclassifications to prior period presentation for correction of classification of certain acquired policies.
(4) Includes investment contracts reported at fair value, which exceeded the account value by $646 million.

VOBA

Value of business acquired ("VOBA"), which is established in accordance with purchase accounting guidance, is an intangible asset associated with the acquired in force insurance contracts representing the difference between the fair value and carrying value of the liabilities, determined as of the acquisition date. The fair value of the liabilities, and hence VOBA, reflects the cost of the capital attributable to the acquired insurance contracts. VOBA will be amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits will include both actual experience as it arises and estimates of gross profits for future periods. The Company will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. VOBA is reported as a component of "Other assets" and the amortization of VOBA is reported in "General and administrative expenses." The proportion of the VOBA balance attributable to each of the product groups associated with this acquisition are as follows: 48% related to accident and health insurance products, 45% related to individual life insurance, and 7% related to fixed annuities.

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

	(in millions)
2012	$ 413
2013	$ 360
2014	$ 313
2015	$ 270
2016	$ 238
2017 and thereafter	$1,896

Information regarding the change in VOBA is as follows:

	(in millions)
Balance as of February 1, 2011	$3,769
Amortization	(491)
Interest	41
Foreign currency translation	171
Balance as of December 31, 2011	$3,490

Goodwill

As a result of the acquisition of the Star and Edison Businesses, the Company recognized an asset for goodwill representing the excess of the acquisition cost over the net fair value of the assets acquired and liabilities assumed. Goodwill resulting from the acquisition of the

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

Star and Edison Businesses amounted to $173 million. Based on the Company's final calculation of the 338(g) election the Company determined that none of the goodwill is tax deductible. In accordance with U.S. GAAP, goodwill will not be amortized but rather will be tested at least annually for impairment. The test will be performed at the reporting unit level which for this acquisition is the International Insurance segment's Gibraltar Life and Other operations.

Results of the Star and Edison Businesses since the Acquisition Date

The Star and Edison Businesses use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. Due to this one month reporting lag, the Company's Consolidated Financial Statements as of December 31, 2011 include the results for the Star and Edison Businesses from February 1, 2011 through November 30, 2011. The following table presents selected financial information reflecting results for the Star and Edison Businesses that are included in the Company's Consolidated Statements of Operations for the year ended December 31, 2011.

	February 1, 2011 through November 30, 2011
Total revenues	$4,874
Income from continuing operations	642

The results of the Star and Edison Businesses in the table above include a pre-tax charge of $27 million for estimated claims and expenses arising from the earthquake and tsunami in Japan on March 11, 2011. The results of the Star and Edison Businesses in the table above do not reflect the impact of transaction and integration costs on the Company's results. Transaction costs represent costs directly related to effecting the acquisition. Integration costs are costs associated with the integration of the core operations of the Star and Edison Businesses with the Gibraltar Life operations. Both transaction and integration costs are expensed as incurred and are included in "General and administrative expenses." For the year ended December 31, 2011, the Company incurred $213 million of transaction and integration costs reflected in the International Insurance segment and $8 million of costs related to the acquisition reflected in Corporate and Other operations.

Supplemental Unaudited Pro Forma Information

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

	Year Ended December 31, 2011	Year Ended December 31, 2010
	(in millions, except per share amount)	
Total revenues	$50,365	$42,596
Income from continuing operations	3,868	3,227
Net income attributable to Prudential Financial, Inc.	3,831	3,248
Earnings per share-Financial Services Businesses		
Basic:		
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 7.58	$ 5.67
Net income attributable to Prudential Financial, Inc. per share of Common Stock	7.65	5.73
Diluted:		
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 7.48	$ 5.61
Net income attributable to Prudential Financial, Inc. per share of Common Stock	7.55	5.67
Earnings per share-Closed Block Business		
Basic and Diluted:		
Income from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	$ 55.50	$222.00
Net income attributable to Prudential Financial, Inc. per share of Class B Stock	55.50	222.50

Sale of Real Estate Brokerage Franchise and Relocation Services Business

On December 6, 2011, the Company sold its real estate brokerage franchise and relocation services business ("PRERS") to Brookfield Asset Management, Inc. The Prudential Real Estate Financial Services Company of America Inc. ("PREFSA"), a finance subsidiary of the Company with investments in a limited number of real estate brokerage franchises, was excluded from the transaction. The proceeds from the sale, before transaction related expenses, were $108 million and resulted in a pre-tax gain of $49 million and an after tax gain of $62 million.

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

Under the sale agreement, the buyer may continue to use the Company's trademark during a limited transition period and the real estate brokerage franchisees may continue to use the Company's trademark, based on the terms of their respective franchise agreements. In addition, the Company has agreed to provide certain Brookfield affiliates with transitional financing for the transferred relocation services business. See Note 23 for more information on the transitional financing arrangements.

PRERS does not qualify as a Discontinued Operation due to the continuing involvement through the financing provided to Brookfield and the retained equity in PREFSA. Results related to PRERS are included in Corporate and Other operations as a divested business.

Sale of investment in Wachovia Securities

On December 31, 2009 the Company completed the sale of its minority joint venture interest in Wachovia Securities. See Note 7 for more details on this transaction.

Acquisition of Yamato Life

On May 1, 2009, the Company's 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. At the date of acquisition the Company recognized $2.3 billion of assets and $2.3 billion of liabilities related to Yamato. Subsequent to the acquisition, the Company renamed the acquired company The Prudential Gibraltar Financial Life Insurance Company, Ltd.

Acquisition of Hyundai Investment and Securities Co., Ltd.

In 2004, the Company acquired an 80 percent interest in Hyundai Investment and Securities Co., Ltd., a Korean asset management firm, from an agency of the Korean government. In January, 2008, the Company acquired the remaining 20 percent. In February 2010, the Company signed a definitive agreement to sell Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprise its Korean asset management operations. This transaction closed on June 1, 2010 and the results of these operations are now reflected in discontinued operations. See below for a further discussion of the sale of these operations.

Discontinued Operations

Income (loss) from discontinued businesses, including charges upon disposition, for the years ended December 31, are as follows:

	2011	2010	2009
		(in millions)	
Global commodities business(1)	$16	$30	$ 28
Korean asset management operations(2)	0	37	17
Real estate investments sold or held for sale(3)	37	7	22
Mexican asset management operations(4)	0	6	12
Other(5)	0	1	2
Income from discontinued operations before income taxes	53	81	81
Income tax expense	18	48	100
Income (loss) from discontinued operations, net of taxes	$35	$33	$ (19)

(1) On April 6, 2011, the Company entered into a stock and asset purchase agreement with Jefferies Group, Inc. ("Jefferies"), pursuant to which the Company agreed to sell to Jefferies all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its global commodities business (the "Global Commodities Business") and certain assets that are primarily used in connection with the Global Commodities Business. Subsidiaries included in the sale are Prudential Bache Commodities, LLC, Prudential Bache Securities, LLC, Bache Commodities Limited, and Bache Commodities (Hong Kong) Ltd. On July 1, 2011, the Company completed the sale and received cash proceeds of $422 million, which includes a final purchase price true-up of $2 million received post closing. Included in the table above for the year ended December 31, 2011, are after-tax losses of $17 million recorded in connection with the sale of these operations, consisting of pre-tax losses of $18 million and income tax benefit of $1 million.

(2) In the first quarter of 2010, the Company signed a definitive agreement to sell Prudential Investment & Securities Co. Ltd. and Prudential Asset Management Co. Ltd., which together comprised the Company's Korean asset management operations. This transaction closed in the second quarter of 2010. Included within the table above for the year ended December 31, 2010, is an after-tax loss of $5 million recorded in connection with the sale of these operations, consisting of a pre-tax gain of $29 million and income tax expense of $34 million. Income tax expense reflected above for the year ended December 31, 2009 include net tax expenses associated with the change in repatriation assumption of the earnings in these operations. Included in this net tax expense for the year ended December 31, 2009 is a tax benefit that was related to January 1, 2009 balances that were recorded in Other Comprehensive Income and for which the pre-tax losses were not recorded until 2010.

(3) Reflects the income or loss from discontinued real estate investments.

(4) In the second quarter of 2009, the Company entered into an agreement to sell its mutual fund and banking operations in Mexico. This transaction closed in the fourth quarter of 2009. Included within the table above for the years ended December 31, 2010 and 2009 are $6 million and $8 million, respectively of pre-tax gains recorded in connection with the sale of this business.

(5) Includes the results of the equity sales, trading and research operations of Prudential Equity Group, European retail transaction-oriented stockbrokerage operations and related activities of Prudential Securities Group, Inc. and the Company's healthcare business.

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

The Company's Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses of $464 million and $7 million, respectively, at December 31, 2011 and $7,105 million and $6,646 million, respectively, at December 31, 2010.

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

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-than-temporary Impairments in AOCI(4)
			(in millions)		
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 12,249	$ 2,873	$ 18	$ 15,104	$ 0
Obligations of U.S. states and their political subdivisions	2,664	393	2	3,055	0
Foreign government bonds	72,442	4,754	209	76,987	0
Corporate securities	119,800	10,088	3,015	126,873	(22)
Asset-backed securities(1)	12,346	172	1,825	10,693	(1,199)
Commercial mortgage-backed securities	11,519	669	108	12,080	8
Residential mortgage-backed securities(2)	9,404	531	79	9,856	(13)
Total fixed maturities, available-for-sale	$240,424	$19,480	$5,256	$254,648	$(1,226)
Equity securities, available-for-sale(3)	$ 6,922	$ 1,061	$ 448	$ 7,535	

(1) Includes credit tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) During 2011, perpetual preferred stocks of $1.3 billion were reclassified to "Other trading account assets." Prior periods were not restated.
(4) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income (loss)," or "AOCI," which were not included in earnings. Amount excludes $223 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-than-temporary Impairments in AOCI(4)
			(in millions)		
Fixed maturities, held-to-maturity					
Foreign government bonds	$1,260	$128	$ 0	$1,388	$0
Corporate securities(1)	1,157	21	98	1,080	0
Asset-backed securities(2)	1,213	62	0	1,275	0
Commercial mortgage-backed securities	428	69	0	497	0
Residential mortgage-backed securities(3)	1,049	65	0	1,114	0
Total fixed maturities, held-to-maturity(1)	$5,107	$345	$98	$5,354	$0

(1) Excludes notes with amortized cost of $500 million (fair value, $519 million) which have been offset with the associated payables under a netting agreement.
(2) Includes credit tranched securities collateralized by auto loans, credit cards, education loans, and other asset types.
(3) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(4) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income (loss)," or "AOCI," which were not included in earnings.

4. INVESTMENTS *(continued)*

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

(1) Includes credit tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income (loss)," or "AOCI," which were not included in earnings. Amount excludes $606 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

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

(1) Includes credit tranched securities collateralized by auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income (loss)," or "AOCI," which were not included in earnings.

The amortized cost and fair value of fixed maturities by contractual maturities at December 31, 2011, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Due in one year or less	$ 8,173	$ 8,192	$ 0	$ 0
Due after one year through five years	47,775	48,372	59	60
Due after five years through ten years	55,112	58,167	422	427
Due after ten years(1)	96,095	107,288	1,936	1,981
Asset-backed securities	12,346	10,693	1,213	1,275
Commercial mortgage-backed securities	11,519	12,080	428	497
Residential mortgage-backed securities	9,404	9,856	1,049	1,114
Total	$240,424	$254,648	$5,107	$5,354

(1) Excludes notes with amortized cost of $500 million (fair value, $519 million) which have been offset with the associated payables under a netting agreement.

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

4. INVESTMENTS *(continued)*

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

	2011	2010	2009
		(in millions)	
Fixed maturities, available-for-sale			
Proceeds from sales	$24,834	$11,214	$23,390
Proceeds from maturities/repayments	17,660	17,346	18,182
Gross investment gains from sales, prepayments, and maturities	1,100	714	1,025
Gross investment losses from sales and maturities	(335)	(226)	(535)
Fixed maturities, held-to-maturity			
Gross investment gains from prepayments	$ 0	$ 0	$ 378
Proceeds from maturities/repayments	457	470	0
Equity securities, available-for-sale			
Proceeds from sales	$ 3,750	$ 2,467	$ 2,264
Gross investment gains from sales	506	364	303
Gross investment losses from sales	(249)	(67)	(176)
Fixed maturity and equity security impairments			
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (535)	$ (732)	$ (1,694)
Writedowns for impairments on equity securities	(112)	(112)	(1,002)

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

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

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

	Year Ended December 31,	
	2011	2010
	(in millions)	
Balance, beginning of period	$1,493	$1,752
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(379)	(340)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(32)	(336)
Credit loss impairment recognized in the current period on securities not previously impaired	49	154
Additional credit loss impairments recognized in the current period on securities previously impaired	317	228
Increases due to the passage of time on previously recorded credit losses	58	97
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(31)	(62)
Balance, end of period	$1,475	$1,493

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

4. INVESTMENTS *(continued)*

Trading Account Assets Supporting Insurance Liabilities

The following table sets forth the composition of "Trading account assets supporting insurance liabilities, at fair value" at December 31:

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 951	$ 951	$ 697	$ 697
Fixed maturities:				
Corporate securities	10,297	11,036	9,581	10,118
Commercial mortgage-backed securities	2,157	2,247	2,352	2,407
Residential mortgage-backed securities(1)	1,786	1,844	1,350	1,363
Asset-backed securities(2)	1,504	1,367	1,158	1,030
Foreign government bonds	644	655	567	569
U.S. government authorities and agencies and obligations of U.S. states	440	470	467	448
Total fixed maturities	16,828	17,619	15,475	15,935
Equity securities	1,050	911	1,156	1,139
Total trading account assets supporting insurance liabilities	$18,829	$19,481	$17,328	$17,771

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

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within "Asset management fees and other income" was $209 million, $415 million and $1,794 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Other Trading Account Assets

The following table sets forth the composition of the "Other trading account assets" at December 31:

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 4	$ 3	$ 3	$ 3
Fixed maturities:				
Asset-backed securities	698	652	706	661
Residential mortgage-backed securities	186	96	301	181
Corporate securities	557	555	319	318
Commercial mortgage-backed securities	155	110	144	103
U.S. government authorities and agencies and obligations of U.S. states	41	31	212	214
Foreign government bonds	47	47	25	25
Total fixed maturities	1,684	1,491	1,707	1,502
Other	15	19	16	20
Equity securities(1)	1,682	1,621	548	561
Subtotal	$3,385	$3,134	$2,274	$2,086
Derivative instruments		2,411		2,139
Total other trading account assets	$3,385	$5,545	$2,274	$4,225

(1) During 2011, perpetual preferred stocks of $1.3 billion were reclassified from "Equity securities, available-for-sale." Additionally, $17 million of gains were reclassified from "Accumulated other comprehensive income (loss)" into "Asset management fees and other income." Prior periods were not restated.

The net change in unrealized gains (losses) from other trading account assets, excluding derivative instruments, still held at period end, recorded within "Asset management fees and other income" was $63 million, $57 million and $101 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Concentrations of Financial Instruments

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

4. INVESTMENTS *(continued)*

As of December 31, 2011 and 2010, the Company's exposure to concentrations of credit risk of single issuers greater than 10% of the Company's stockholders' equity included securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	$60,323	$63,846	$38,647	$40,752
Fixed maturities, held-to-maturity	1,260	1,388	1,199	1,283
Trading account assets supporting insurance liabilities	471	483	418	424
Other trading account assets	40	40	23	24
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$62,094	$65,757	$40,287	$42,483

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	$ 4,678	$ 5,240	$ 3,963	$ 4,238
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	17	18	17	18
Other trading account assets	2	2	1	2
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$ 4,697	$ 5,260	$ 3,981	$ 4,258

Commercial Mortgage and Other Loans

The Company's commercial mortgage and other loans are comprised as follows at December 31:

	December 31, 2011		December 31, 2010	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial and agricultural mortgage loans by property type:				
Office buildings	$ 6,391	19.8%	$ 5,803	19.5%
Retail stores	7,309	22.7	6,388	21.4
Apartments/Multi-Family	5,277	16.4	5,140	17.2
Industrial buildings	7,049	21.8	6,576	22.1
Hospitality	1,486	4.6	1,584	5.3
Other	2,707	8.4	2,440	8.2
Total commercial mortgage loans	30,219	93.7	27,931	93.7
Agricultural property loans	2,046	6.3	1,893	6.3
Total commercial mortgage and agricultural loans by property type	32,265	100.0%	29,824	100.0%
Valuation allowance	(313)		(505)	
Total net commercial mortgage and agricultural loans by property type	31,952		29,319	
Other loans				
Uncollateralized loans	2,323		1,468	
Residential property loans	1,034		891	
Other collateralized loans	176		223	
Total other loans	3,533		2,582	
Valuation allowance	(54)		(70)	
Total net other loans	3,479		2,512	
Total commercial mortgage and other loans(1)	$35,431		$31,831	

(1) Includes loans held at fair value.

4. INVESTMENTS *(continued)*

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (27%), New York (11%) and Texas (8%) at December 31, 2011.

Activity in the allowance for losses for all commercial mortgage and other loans, for the years ended December 31, is as follows:

	2011(1)					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for losses, beginning of year	$ 497	$ 8	$17	$ 20	$ 33	$ 575
Addition to / (release of) allowance of losses	(202)	11	(2)	13	1	(179)
Charge-offs, net of recoveries	(1)	0	0	(15)	(15)	(31)
Change in foreign exchange	0	0	1	0	1	2
Allowance for losses, end of year	$ 294	$19	$16	$ 18	$ 20	$ 367

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

	2009(1)
	Total
	(in millions)
Allowance for losses, beginning of year	$ 332
Addition to / (release of) allowance of losses	468
Charge-offs, net of recoveries	(105)
Change in foreign exchange	3
Allowance for losses, end of year	$ 698

(1) Valuation allowances for 2011 and 2010 are presented in a format consistent with new disclosure requirements under the updated guidance issued by the FASB in 2011. Valuation allowances for 2009 are provided consistent with the prior presentation.

4. INVESTMENTS *(continued)*

The following table sets forth the allowance for credit losses and the recorded investment in commercial mortgage and other loans, for the years ended December 31:

	2011					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 120	$ 11	$ 0	$ 18	$ 0	$ 149
Ending balance: collectively evaluated for impairment	174	8	16	0	20	218
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 294	$ 19	$ 16	$ 18	$ 20	$ 367
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 1,903	$ 45	$ 0	$110	$ 92	$ 2,150
Ending balance gross of reserves: collectively evaluated for impairment	28,316	2,001	1,034	66	2,231	33,648
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$30,219	$2,046	$1,034	$176	$2,323	$35,798

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

	2010					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 264	$ 0	$ 0	$ 20	$ 16	$ 300
Ending balance: collectively evaluated for impairment	233	8	17	0	17	275
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 497	$ 8	$ 17	$ 20	$ 33	$ 575
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 2,279	$ 39	$ 0	$147	$ 36	$ 2,501
Ending balance gross of reserves: collectively evaluated for impairment	25,652	1,854	891	76	1,432	29,905
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$27,931	$1,893	$891	$223	$1,468	$32,406

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

4. INVESTMENTS *(continued)*

Impaired loans include those loans for which it is probable that amounts due according to the contractual terms of the loan agreement will not all be collected. Impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses for the years ended December 31, are as follows:

	2011				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
			(in millions)		
With no related allowance recorded:					
Commercial mortgage loans:					
Industrial	$ 0	$ 0	$ 0	$ 0	$ 0
Retail	0	0	0	0	0
Office	2	84	0	1	0
Apartments/Multi-Family	0	0	0	0	0
Hospitality	0	0	0	23	0
Other	17	17	0	11	1
Total commercial mortgage loans	19	101	0	35	1
Agricultural property loans	0	0	0	1	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	6	13	0	6	0
Total with no related allowance	$ 25	$114	$ 0	$ 42	$ 1
With an allowance recorded:					
Commercial mortgage loans:					
Industrial	$ 54	$ 54	$ 19	$ 36	$ 1
Retail	89	89	11	114	3
Office	47	47	3	49	0
Apartments/Multi-Family	102	102	19	197	4
Hospitality	129	129	55	178	0
Other	92	92	13	100	2
Total commercial mortgage loans	513	513	120	674	10
Agricultural property loans	19	19	11	14	0
Residential property loans	0	0	0	5	0
Other collateralized loans	21	21	18	31	2
Uncollateralized loans	0	0	0	13	0
Total with related allowance	$553	$553	$149	$737	$12
Total:					
Commercial mortgage loans	$532	$614	$120	$709	$11
Agricultural property loans	19	19	11	15	0
Residential property loans	0	0	0	5	0
Other collateralized loans	21	21	18	31	2
Uncollateralized loans	6	13	0	19	0
Total	$578	$667	$149	$779	$13

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

4. INVESTMENTS *(continued)*

	2010		
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance
		(in millions)	
With no related allowance recorded:			
Commercial mortgage loans:			
Industrial	$ 0	$ 0	$ 0
Retail	0	0	0
Office	0	0	0
Apartments/multi-family	0	0	0
Hospitality	64	64	0
Other	0	0	0
Total commercial mortgage loans	64	64	0
Agricultural property loans	1	1	0
Residential property loans	0	0	0
Other collateralized loans	0	0	0
Uncollateralized loans	0	12	0
Total with no related allowance	$ 65	$ 77	$ 0
With an allowance recorded:			
Commercial mortgage loans:			
Industrial	$ 18	$ 18	$ 18
Retail	155	155	23
Office	43	43	10
Apartments/multi-family	323	323	103
Hospitality	218	218	89
Other	95	96	21
Total commercial mortgage loans	852	853	264
Agricultural property loans	0	0	0
Residential property loans	26	31	0
Other collateralized loans	29	29	20
Uncollateralized loans	35	38	16
Total with related allowance	$ 942	$ 951	$300
Total:			
Commercial mortgage loans	$ 916	$ 917	$264
Agricultural property loans	1	1	0
Residential property loans	26	31	0
Other collateralized loans	29	29	20
Uncollateralized loans	35	50	16
Total	$1,007	$1,028	$300

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

Impaired commercial mortgage and other loans with no allowance for losses are loans in which the fair value of the collateral or the net present value of the loans' expected future cash flows equals or exceeds the recorded investment. The average recorded investment in impaired loans with an allowance recorded, before the allowance for losses, was $750 million at December 31, 2010. Net investment income recognized on these loans totaled $35 million for the year ended December 31, 2010. See Note 2 for information regarding the Company's accounting policies for commercial mortgage and other loans.

The net carrying value of commercial and other loans held for sale by the Company as of December 31, 2011 and 2010 was $514 million and $136 million, respectively. In all these transactions, the Company pre-arranges that it will sell the loan to an investor. As of December 31, 2011 and 2010, all of the Company's commercial and other loans held for sale were collateralized, with collateral primarily consisting of office buildings, retail properties, apartment complexes and industrial buildings.

4. INVESTMENTS *(continued)*

The following tables set forth the credit quality indicators as of December 31, 2011, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans—Industrial buildings

	Debt Service Coverage Ratio—December 31, 2011						
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
Loan-to-Value Ratio							
0%—49.99%	$ 627	$ 311	$ 211	$ 254	$ 19	$ 48	$1,470
50%—59.99%	299	86	315	246	73	46	1,065
60%—69.99%	922	287	380	308	373	105	2,375
70%-79.99%	175	86	136	448	402	95	1,342
80%—89.99%	0	0	0	106	114	236	456
90%—100%	19	0	0	0	0	162	181
Greater than 100%	16	0	0	0	19	125	160
Total Industrial	$2,058	$ 770	$1,042	$1,362	$1,000	$817	$7,049

Commercial mortgage loans—Retail

	Debt Service Coverage Ratio—December 31, 2011						
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
Loan-to-Value Ratio							
0%—49.99%	$1,188	$ 251	$ 523	$ 87	$ 18	$ 3	$2,070
50%—59.99%	627	507	590	54	48	3	1,829
60%—69.99%	351	539	739	485	82	17	2,213
70%—79.99%	0	47	289	608	18	0	962
80%—89.99%	0	31	0	9	17	23	80
90%—100%	0	0	18	14	16	40	88
Greater than 100%	0	0	0	21	46	0	67
Total Retail	$2,166	$1,375	$2,159	$1,278	$ 245	$ 86	$7,309

Commercial mortgage loans—Office

	Debt Service Coverage Ratio—December 31, 2011						
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
Loan-to-Value Ratio							
0%—49.99%	$1,756	$365	$181	$ 132	$ 23	$ 31	$2,488
50%—59.99%	572	106	210	198	16	9	1,111
60%—69.99%	612	412	79	460	61	38	1,662
70%—79.99%	65	0	31	15	618	15	744
80%—89.99%	0	0	0	138	52	54	244
90%—100%	0	0	16	0	0	18	34
Greater than 100%	0	0	17	71	8	12	108
Total Office	$3,005	$883	$534	$1,014	$778	$177	$6,391

Commercial mortgage loans—Apartments/Multi-Family

	Debt Service Coverage Ratio—December 31, 2011						
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
Loan-to-Value Ratio							
0%—49.99%	$ 726	$176	$ 272	$ 172	$215	$ 61	$1,622
50%—59.99%	95	16	257	156	59	31	614
60%—69.99%	425	18	341	356	76	88	1,304
70%—79.99%	107	99	146	729	130	47	1,258
80%—89.99%	0	15	0	107	0	52	174
90%—100%	0	0	13	16	2	77	108
Greater than 100%	0	0	0	36	21	140	197
Total Apartments/Multi-Family	$1,353	$324	$1,029	$1,572	$503	$496	$5,277

4. INVESTMENTS *(continued)*

Commercial mortgage loans—Hospitality

	Debt Service Coverage Ratio—December 31, 2011						
Loan-to-Value Ratio	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
0%—49.99%	$143	$158	$ 0	$115	$ 22	$ 0	$ 438
50%—59.99%	51	0	0	9	57	0	117
60%—69.99%	0	6	45	350	11	0	412
70%—79.99%	6	0	0	0	117	61	184
80%—89.99%	0	0	77	49	37	36	199
90%—100%	0	0	19	0	21	15	55
Greater than 100%	0	0	0	0	2	79	81
Total Hospitality	$200	$164	$141	$523	$267	$191	$1,486

Commercial mortgage loans—Other

	Debt Service Coverage Ratio—December 31, 2011						
Loan-to-Value Ratio	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
0%—49.99%	$333	$ 31	$ 6	$ 74	$ 1	$ 1	$ 446
50%—59.99%	50	185	20	7	0	0	262
60%—69.99%	111	173	280	295	118	7	984
70%—79.99%	286	0	202	286	13	0	787
80%—89.99%	0	0	61	21	15	5	102
90%—100%	0	19	0	0	16	15	50
Greater than 100%	0	0	0	0	2	74	76
Total Other	$780	$408	$569	$683	$165	$102	$2,707

Agricultural property loans

	Debt Service Coverage Ratio—December 31, 2011						
Loan-to-Value Ratio	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
0%—49.99%	$383	$123	$340	$427	$154	$ 0	$1,427
50%—59.99%	70	120	8	39	0	3	240
60%—69.99%	155	5	181	0	0	0	341
70%—79.99%	0	0	0	0	0	0	0
80%—89.99%	0	0	0	0	0	0	0
90%—100%	0	0	0	0	0	38	38
Greater than 100%	0	0	0	0	0	0	0
Total Agricultural	$608	$248	$529	$466	$154	$41	$2,046

Commercial mortgage and agricultural loans

	Debt Service Coverage Ratio—December 31, 2011						
Loan-to-Value Ratio	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)						
0%—49.99%	$ 5,156	$1,415	$1,533	$1,261	$ 452	$ 144	$ 9,961
50%—59.99%	1,764	1,020	1,400	709	253	92	5,238
60%—69.99%	2,576	1,440	2,045	2,254	721	255	9,291
70%—79.99%	639	232	804	2,086	1,298	218	5,277
80%—89.99%	0	46	138	430	235	406	1,255
90%—100%	19	19	66	30	55	365	554
Greater than 100%	16	0	17	128	98	430	689
Total Commercial Mortgage and Agricultural	$10,170	$4,172	$6,003	$6,898	$3,112	$1,910	$32,265

4. INVESTMENTS *(continued)*

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

Commercial mortgage loans—Industrial buildings

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

Commercial mortgage loans—Retail

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

Commercial mortgage loans—Office

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

Commercial mortgage loans—Apartments/Multi-Family

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

4. INVESTMENTS *(continued)*

Commercial mortgage loans—Hospitality

Loan-to-Value Ratio	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	Debt Service Coverage Ratio—December 31, 2010 (in millions)						
0%—49.99%	$153	$ 0	$128	$120	$ 0	$ 28	$ 429
50%—59.99%	21	0	0	0	0	0	21
60%—69.99%	0	36	52	156	59	11	314
70%—79.99%	0	0	6	243	0	0	249
80%—89.99%	0	4	72	0	72	101	249
90%—100%	0	0	19	0	0	88	107
Greater than 100%	0	0	0	59	35	121	215
Total Hospitality	$174	$ 40	$277	$578	$166	$349	$1,584

Commercial mortgage loans—Other

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

Agricultural property loans

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

Commercial mortgage and agricultural loans

Loan-to-Value Ratio	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	Total
	Debt Service Coverage Ratio—December 31, 2010 (in millions)						
0%—49.99%	$4,710	$1,021	$1,776	$1,239	$ 455	$ 154	$ 9,355
50%—59.99%	1,406	606	936	604	310	74	3,936
60%—69.99%	1,239	970	1,333	1,808	569	219	6,138
70%—79.99%	244	263	1,388	1,953	1,147	290	5,285
80%—89.99%	138	4	282	885	600	553	2,462
90%—100%	20	12	47	134	270	513	996
Greater than 100%	16	0	13	348	299	976	1,652
Total Commercial Mortgage and Agricultural	$7,773	$2,876	$5,775	$6,971	$3,650	$2,779	$29,824

4. INVESTMENTS *(continued)*

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

	As of December 31, 2011						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Day - Accruing	Greater Than 90 Day - Not Accruing	Total Past Due	Total Commercial Mortgage and other Loans
				(in millions)			
Commercial mortgage loans:							
Industrial	$ 7,047	$ 0	$ 2	$0	$ 0	$ 2	$ 7,049
Retail	7,294	0	0	0	15	15	7,309
Office	6,369	5	0	0	17	22	6,391
Apartment/multi-family	5,207	0	0	0	70	70	5,277
Hospitality	1,486	0	0	0	0	0	1,486
Other	2,657	13	10	0	27	50	2,707
Total commercial mortgage loans	30,060	18	12	0	129	159	30,219
Agricultural property loans	2,005	0	1	1	39	41	2,046
Residential property loans	988	22	6	0	18	46	1,034
Other collateralized loans	174	0	0	0	2	2	176
Uncollateralized loans	2,323	0	0	0	0	0	2,323
Total	$35,550	$40	$19	$1	$188	$248	$35,798

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

See Note 2 for further discussion regarding nonaccrual status loans. The following table sets forth commercial mortgage and other loans on nonaccrual status, based upon the recorded investment gross of allowance for credit losses, for the years ended December 31:

	2011	2010
	(in millions)	
Commercial mortgage loans:		
Industrial	$ 54	$ 43
Retail	72	146
Office	58	65
Apartments/Multi-Family	129	410
Hospitality	169	290
Other	144	151
Total commercial mortgage loans	626	1,105
Agricultural property loans	44	39
Residential property loans	18	22
Other collateralized loans	15	50
Uncollateralized loans	8	35
Total	$711	$1,251

4. INVESTMENTS *(continued)*

The following table sets forth the commercial mortgage and other loans acquired and sold for the year ended December 31, 2011:

	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
			(in millions)			
Acquired(1)	$ 52	$0	$219	$ 2	$565	$838
Sold(2)	147	0	0	11	25	183

(1) Reported at purchase price of commercial mortgage and other loans acquired.
(2) Reported at book value of commercial mortgage and other loans sold.

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

	Three Months Ended December 31, 2011		Year Ended December 31, 2011	
	Adjusted Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjusted Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(in millions)		
Commercial mortgage loans:				
Industrial	$ 0	$ 0	$ 0	$ 0
Retail	15	15	151	134
Office	17	17	22	21
Apartments/Multi-Family	0	0	38	36
Hospitality	55	46	86	75
Other	35	30	69	55
Total commercial mortgage loans	122	108	366	321
Agricultural property loans	2	2	2	2
Residential property loans	2	2	7	7
Other collateralized loans	0	0	8	8
Uncollateralized loans	0	0	0	0
Total	$126	$112	$383	$338

The amount of payment defaults during the period on commercial mortgage and other loans that were modified as a troubled debt restructuring within the last 12 months was less than $1 million as of December 31, 2011.

As of December 31, 2011, the Company committed to fund $6 million to borrowers that have been involved in a troubled debt restructuring.

Other Long-term Investments

"Other long-term investments" are comprised as follows at December 31:

	2011	2010
	(in millions)	
Joint ventures and limited partnerships:		
Real estate-related	$1,182	$1,058
Non-real estate-related	3,304	2,477
Total joint ventures and limited partnerships	4,486	3,535
Real estate held through direct ownership	2,460	1,659
Other	874	977
Total other long-term investments	$7,820	$6,171

In certain investment structures, the Company's asset management business invests with other co-investors in an investment fund referred to as a feeder fund. In these structures, the invested capital of several feeder funds is pooled together and used to purchase ownership interests in another fund, referred to as a master fund. The master fund utilizes this invested capital, and in certain cases other debt financing, to purchase various classes of assets on behalf of its investors. Specialized industry accounting for investment companies

4. INVESTMENTS *(continued)*

calls for the feeder fund to reflect its investment in the master fund as a single net asset equal to its proportionate share of the net assets of the master fund, regardless of its level of interest in the master fund. In cases where the Company consolidates the feeder fund, it retains the feeder fund's net asset presentation and reports the consolidated feeder fund's proportionate share of the net assets of the master fund in "Other long-term investments," with any unaffiliated investors' noncontrolling interest in the feeder fund reported in "Other liabilities" or "Noncontrolling interests." The consolidated feeder funds' investments in these master funds, reflected on this net asset basis, totaled $172 million as of both December 31, 2011 and 2010. The unaffiliated interest in the consolidated feeder funds was $2 million and $1 million as of December 31, 2011 and 2010, respectively, and the master funds had gross assets of $819 million and $781 million, respectively, and gross liabilities of $565 million and $540 million, respectively, which are not included on the Company's balance sheet.

Net Investment Income

Net investment income for the years ended December 31, was from the following sources:

	2011	2010	2009
		(in millions)	
Fixed maturities, available-for-sale	$ 9,374	$ 8,346	$ 8,182
Fixed maturities, held-to-maturity	140	150	135
Equity securities, available-for-sale	315	285	302
Trading account assets	889	822	821
Commercial mortgage and other loans	1,926	1,887	1,929
Policy loans	598	577	570
Broker-dealer related receivables	0	0	(3)
Short-term investments and cash equivalents	58	45	121
Other long-term investments	231	152	(203)
Gross investment income	13,531	12,264	11,854
Less: investment expenses	(407)	(399)	(464)
Net investment income	$13,124	$11,865	$11,390

Carrying value for non-income producing assets included in fixed maturities and commercial mortgage and other loans totaled $243 million and $21 million, respectively, as of December 31, 2011. Non-income producing assets represent investments that have not produced income for the twelve months preceding December 31, 2011.

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the years ended December 31, were from the following sources:

	2011	2010	2009
		(in millions)	
Fixed maturities	$ 230	$ (244)	$(1,204)
Equity securities	145	185	(875)
Commercial mortgage and other loans	122	53	(602)
Investment real estate	(20)	1	(48)
Joint ventures and limited partnerships	26	(41)	(55)
Derivatives(1)	2,294	1,090	(127)
Other	34	6	14
Realized investment gains (losses), net	$2,831	$1,050	$(2,897)

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

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains and losses on securities classified as "available-for-sale" and certain other long-term investments and other assets are included in the Consolidated Statements of Financial Position as a component of "Accumulated other comprehensive income (loss)," or "AOCI." Changes in these amounts include reclassification adjustments to exclude from "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that had been part of "Other comprehensive income (loss)" in earlier periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows:

4. INVESTMENTS *(continued)*

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

	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Cumulative impact of adoption of new authoritative guidance on January 1, 2009	(1,139)	9	1		388	(741)
Net investment gains (losses) on investments arising during the period	529				(190)	339
Reclassification adjustment for (gains) losses included in net income	1,070				(385)	685
Reclassification adjustment for OTTI losses excluded from net income(1)	(1,689)				608	(1,081)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		184			(66)	118
Impact of net unrealized investment (gains) losses on future policy benefits			1		0	1
Impact of net unrealized investment (gains) losses on policyholders' dividends				0	0	0
Balance, December 31, 2009	$(1,229)	$ 193	$ 2	$ 0	$ 355	$ (679)
Net investment gains (losses) on investments arising during the period	(37)				13	(24)
Reclassification adjustment for (gains) losses included in net income	461				(158)	303
Reclassification adjustment for OTTI losses excluded from net income(1)	(44)				16	(28)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(171)			61	(110)
Impact of net unrealized investment (gains) losses on future policy benefits			(7)		3	(4)
Impact of net unrealized investment (gains) losses on policyholders' dividends				334	(116)	218
Balance, December 31, 2010	$ (849)	$ 22	$ (5)	$334	$ 174	$ (324)
Net investment gains (losses) on investments arising during the period	(474)				166	(308)
Reclassification adjustment for (gains) losses included in net income	375				(131)	244
Reclassification adjustment for OTTI losses excluded from net income(1)	(55)				19	(36)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(6)			2	(4)
Impact of net unrealized investment (gains) losses on future policy benefits			19		(7)	12
Impact of net unrealized investment (gains) losses on policyholders' dividends				132	46	178
Balance, December 31, 2011	$(1,003)	$ 16	$14	$466	$ 269	$ (238)

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

4. INVESTMENTS *(continued)*

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2008	$(11,893)	$ 1,479	$ (384)	$ 431	$ 3,632	$(6,735)
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(322)	15	4	418	(33)	82
Net investment gains (losses) on investments arising during the period	12,361				(4,143)	8,218
Reclassification adjustment for (gains) losses included in net income	1,050				(378)	672
Reclassification adjustment for OTTI losses excluded from net income(2)	1,689				(608)	1,081
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(2,297)			804	(1,493)
Impact of net unrealized investment (gains) losses on future policy benefits			(129)		45	(84)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(849)	298	(551)
Balance, December 31, 2009	$ 2,885	$ (803)	$ (509)	$ 0	$ (383)	$ 1,190
Net investment gains (losses) on investments arising during the period	6,709				(2,309)	4,400
Reclassification adjustment for (gains) losses included in net income	(377)				134	(243)
Reclassification adjustment for OTTI losses excluded from net income(2)	44				(14)	30
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(120)			44	(76)
Impact of net unrealized investment (gains) losses on future policy benefits			(392)		140	(252)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(2,454)	874	(1,580)
Balance, December 31, 2010	$ 9,261	$ (923)	$ (901)	$(2,454)	$(1,514)	$ 3,469
Net investment gains (losses) on investments arising during the period	7,142				(2,517)	4,625
Reclassification adjustment for (gains) losses included in net income	(710)				249	(461)
Reclassification adjustment for OTTI losses excluded from net income(2)	55				(19)	36
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(522)			183	(339)
Impact of net unrealized investment (gains) losses on future policy benefits			(369)		129	(240)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(1,865)	648	(1,217)
Balance, December 31, 2011	$ 15,748	$(1,445)	$(1,270)	$(4,319)	$(2,841)	$ 5,873

(1) Includes cash flow hedges. See Note 21 for information on cash flow hedges.
(2) Represents "transfers out" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

4. INVESTMENTS *(continued)*

The table below presents net unrealized gains (losses) on investments by asset class at December 31:

	2011	2010	2009
		(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ (1,003)	$ (849)	$(1,229)
Fixed maturity securities, available-for-sale—all other	15,227	8,078	2,203
Equity securities, available-for-sale	613	1,272	789
Derivatives designated as cash flow hedges(1)	(86)	(262)	(317)
Other investments(2)	(6)	173	210
Net unrealized gains (losses) on investments	$14,745	$8,412	$ 1,656

(1) See Note 21 for more information on cash flow hedges.
(2) Includes $107 million of net unrealized losses on held-to-maturity securities that were transferred from available-for-sale in 2011. Also includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

Duration of Gross Unrealized Loss Positions for Fixed Maturities

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, at December 31:

	2011					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in millions)			
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 870	$ 8	$ 130	$ 10	$ 1,000	$ 18
Obligations of U.S. states and their political subdivisions	7	0	46	2	53	2
Foreign government bonds	4,017	182	306	27	4,323	209
Corporate securities	21,419	1,144	9,691	1,969	31,110	3,113
Commercial mortgage-backed securities	917	61	362	47	1,279	108
Asset-backed securities	2,746	40	4,134	1,785	6,880	1,825
Residential mortgage-backed securities	422	19	378	60	800	79
Total	$30,398	$1,454	$15,047	$3,900	$45,445	$5,354

(1) Includes $706 million of fair value and $98 million of gross unrealized losses at December 31, 2011 on securities classified as held-to-maturity, a portion of which are not reflected in accumulated other comprehensive income.

4. INVESTMENTS *(continued)*

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

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

The gross unrealized losses at December 31, 2011 and 2010 are composed of $3,535 million and $2,950 million related to high or highest quality securities based on NAIC or equivalent rating and $1,819 million and $1,386 million related to other than high or highest quality securities based on NAIC or equivalent rating. At December 31, 2011, $3,478 million of the gross unrealized losses represented declines in value of greater than 20%, $871 million of which had been in that position for less than six months, as compared to $2,238 million at December 31, 2010, that represented declines in value of greater than 20%, $386 million of which had been in that position for less than six months. At December 31, 2011, the $3,900 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, finance, and services sectors of the Company's corporate securities. At December 31, 2010, the $3,491 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, finance, and services sectors of the Company's corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at December 31, 2011 and 2010. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to foreign currency movements, credit spread widening and increased liquidity discounts. At December 31, 2011, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

4. INVESTMENTS *(continued)*

Duration of Gross Unrealized Loss Positions for Equity Securities

The following table shows the fair value and gross unrealized losses aggregated by length of time that individual equity securities have been in a continuous unrealized loss position, at December 31:

	2011					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Equity securities, available-for-sale	$2,602	$448	$0	$0	$2,602	$448

	2010					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Equity securities, available-for-sale	$1,098	$87	$326	$34	$1,424	$121

At December 31, 2011, $236 million of the gross unrealized losses represented declines of greater than 20%, $225 million of which had been in that position for less than six months. At December 31, 2010, $35 million of the gross unrealized losses represented declines of greater than 20%, $18 million of which had been in that position for less than six months. Included in the December 31, 2010 table above are perpetual preferred securities. Perpetual preferred securities have characteristics of both debt and equity securities. Since an impairment model similar to fixed maturity securities is applied to these securities, an other-than-temporary impairment has not been recognized on certain perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of December 31, 2010. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at December 31, 2011 and 2010.

Securities Pledged, Restricted Assets and Special Deposits

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including securities lending, securities sold under agreements to repurchase, collateralized borrowings and postings of collateral with derivative counterparties. At December 31, the carrying value of investments pledged to third parties as reported in the Consolidated Statements of Financial Position included the following:

	2011	2010
	(in millions)	
Fixed maturities(1)	$13,070	$11,610
Trading account assets supporting insurance liabilities	738	276
Other trading account assets	46	355
Separate account assets	4,073	4,082
Equity securities	276	334
Total securities pledged	$18,203	$16,657

(1) Includes $4 million and $132 million of fixed maturity securities classified as short-term investments at December 31, 2011 and 2010, respectively.

As of December 31, 2011, the carrying amount of the associated liabilities supported by the pledged collateral was $17,408 million. Of this amount, $6,218 million was "Securities sold under agreements to repurchase," $4,160 million was "Separate account liabilities," $2,973 million was "Cash collateral for loaned securities," $725 million was "Long-term debt," $199 million was "Short-term debt," $1,500 million was "Policyholders' account balances," and $1,633 million was "Other liabilities." As of December 31, 2010, the carrying amount of the associated liabilities supported by the pledged collateral was $16,026 million. Of this amount, $5,885 million was "Securities sold under agreements to repurchase," $4,082 million was "Separate account liabilities," $2,171 million was "Cash collateral for loaned securities," $725 million was "Long-term debt," $275 million was "Short-term debt," $1,500 million was "Policyholders' account balances," and $1,388 million was "Other liabilities."

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities in customer accounts and securities purchased under agreements to resell. The fair value of this collateral was approximately $2,258 million and $1,773 million at December 31, 2011 and 2010, respectively, all of which, for both periods, had either been sold or repledged.

4. INVESTMENTS *(continued)*

Assets of $50 million and $88 million at December 31, 2011 and 2010, respectively, were on deposit with governmental authorities or trustees. Additionally, assets carried at $596 million and $694 million at December 31, 2011 and 2010, respectively, were held in voluntary trusts established primarily to fund guaranteed dividends to certain policyholders and to fund certain employee benefits. Securities restricted as to sale amounted to $191 million and $638 million at December 31, 2011 and 2010, respectively. These amounts include member and activity-based stock associated with memberships in the Federal Home Loan Bank of New York and Boston. Restricted cash and securities of $56 million and $2,917 million at December 31, 2011 and 2010, respectively, were included in "Other assets." The restricted cash and securities for December 31, 2010 primarily represent funds, associated with the sold Global Commodities Business, deposited by clients or accruing to clients as a result of trades or contracts.

5. VARIABLE INTEREST ENTITIES

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

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

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

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

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

5. VARIABLE INTEREST ENTITIES *(continued)*

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

	December 31,	
	2011	2010
	(in millions)	
Fixed maturities, available-for-sale	$ 83	$ 49
Other trading account assets	271	0
Commercial mortgage and other loans	154	341
Other long-term investments	19	17
Cash and cash equivalents	275	84
Accrued investment income	1	1
Other assets	17	3
Separate account assets	0	4
Total assets of consolidated VIEs	$820	$499
Other liabilities	$723	$379
Separate account liabilities	0	4
Total liabilities of consolidated VIEs	$723	$383

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

Other Consolidated Variable Interest Entities

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

	December 31,	
	2011	2010
	(in millions)	
Fixed maturities, available-for-sale	$ 129	$ 136
Fixed maturities, held-to-maturity	1,191	1,130
Trading account assets supporting insurance liabilities	8	9
Other long-term investments	141	(119)
Cash and cash equivalents	0	(2)
Accrued investment income	5	5
Total assets of consolidated VIEs	$1,474	$1,159
Total liabilities of consolidated VIEs	$ 0	$ 0

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

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust's medium-term note liability of $3,197 million and $3,509 million at December 31, 2011 and 2010, respectively, is classified within "Policyholders' account balances." Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support that was not contractually required to the trust.

5. VARIABLE INTEREST ENTITIES *(continued)*

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager, including certain CDOs and other investment structures, as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was $534 million and $506 million at December 31, 2011 and 2010, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Other trading account assets, at fair value" and "Other long-term investments." The fair value of assets held within these unconsolidated VIEs was $7,720 million and $8,979 million as of December 31, 2011 and 2010, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company's balance sheet.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as "Other long-term investments" and its maximum exposure to loss associated with these entities was $4,486 million and $3,535 million as of December 31, 2011 and 2010, respectively.

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

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE's portfolio of assets and related investment activity. The market value of these VIEs was approximately $2.6 billion and $5.0 billion as of December 31, 2011 and 2010, respectively, and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available-for-sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through "Realized investment gains (losses), net," based upon the change in value of the underlying portfolio. The Company's variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company's maximum exposure to loss from these interests was $664 million and $754 million at December 31, 2011 and 2010, respectively, which includes the fair value of the embedded derivatives.

6. DEFERRED POLICY ACQUISITION COSTS

The balances of and changes in deferred policy acquisition costs as of and for the years ended December 31, are as follows:

	2011	2010	2009
		(in millions)	
Balance, beginning of year	$16,435	$14,578	$15,126
Capitalization of commissions, sales and issue expenses	3,897	3,091	2,771
Amortization—Impact of assumption and experience unlocking and true-ups	(35)	276	230
Amortization—All other	(3,257)	(1,713)	(1,724)
Change in unrealized investment gains and losses	(457)	(294)	(2,000)
Foreign currency translation and other	207	497	175
Balance, end of year	$16,790	$16,435	$14,578

7. INVESTMENTS IN OPERATING JOINT VENTURES

The Company has made investments in certain joint ventures that are strategic in nature and made other than for the sole purpose of generating investment income. These investments are accounted for under the equity method of accounting and are included in "Other assets" in the Company's Consolidated Statements of Financial Position. The earnings from these investments are included on an after-tax basis in "Equity in earnings of operating joint ventures, net of taxes" in the Company's Consolidated Statements of Operations. Investments in operating joint ventures include investments made as part of the Company's International Insurance segment, and prior to its sale on December 31, 2009, also included the Company's investment in Wachovia Securities. The summarized financial information for the Company's operating joint ventures has been included in the summarized combined financial information for all significant equity method investments shown in Note 4.

7. INVESTMENTS IN OPERATING JOINT VENTURES *(continued)*

The following table sets forth information related to the Company's investments in operating joint ventures as of and for the years ended December 31:

	2011	2010	2009
		(in millions)	
Investment in operating joint ventures:			
Wachovia Securities	$ 0	$ 0	$ 0
All other joint ventures(1)	407	787	857
Subtotal	$407	$787	$ 857
Dividends received from investment in:			
Wachovia Securities	$ 0	$ 0	$ 23
All other joint ventures	49	47	33
Subtotal	$ 49	$ 47	$ 56
After-tax equity earnings (losses):			
Wachovia Securities(2)	$ 0	$ 0	$1,483
All other joint ventures	185	84	40
Subtotal	$185	$ 84	$1,523

(1) Includes $126 million, $459 million and $528 million related to an indirect investment in China Pacific Group as of December 31, 2011, 2010 and 2009, respectively.

(2) Includes pre-tax equity earnings from Wachovia Securities of $2.288 billion, including the gain on the sale of $2.247 billion, and tax expense of $805 million, including $790 million associated with the gain on the sale, for the year ended December 31, 2009.

Investments in operating joint ventures

The Company has made investments in operating joint ventures as part of its International Insurance segment. The Company's combined investment in these operating joint ventures includes an indirect investment in China Pacific Group, a Chinese insurance operation. The indirect investment in China Pacific Group includes unrealized changes in market value, which are included in accumulated other comprehensive income and relate to the market price of China Pacific Group's publicly traded shares, which began trading on the Shanghai Exchange in 2007 and since the fourth quarter of 2009 are trading on the Hong Kong exchange. In December 2010, a consortium of investors including the Company sold approximately 16% of its holdings, resulting in a pre-tax gain of $66 million to the Company, and sold approximately 50% of its original holdings in 2011, resulting in a pre-tax gain of $237 million to the Company. The Company transacts with certain of these operating joint ventures in the normal course of business, on terms equivalent to those that prevail in arm's length transactions. For the years ended December 31, 2011, 2010 and 2009, the Company recognized $15 million, $16 million and $15 million, respectively, of asset management fee income from these transactions.

Former Investment in Afore XXI, S.A. de C.V.

On October 20, 2011, the Company 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. The transaction was completed on December 2, 2011 and resulted in a pre-tax gain of $96 million to the International Insurance segment. This gain is reflected in "Asset management fees and other income" of the Company's Consolidated Statements of Operations.

Former Investment in Wachovia Securities

On December 31, 2009, the Company completed the sale of its minority joint venture interest in Wachovia Securities (including Wells Fargo Advisors) to Wells Fargo. For the year ended December 31, 2009, "Equity in earnings of operating joint ventures, net of taxes" includes the associated 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. Results related to the joint venture are included in Corporate and Other operations as a divested business.

8. VALUE OF BUSINESS ACQUIRED

The balances of and changes in VOBA as of and for the years ended December 31, are as follows:

	2011(1)	2010	2009
	(in millions)		
Balance, beginning of year	$ 484	$511	$ 719
Acquisitions	3,769	0	0
Amortization—Impact of assumption and experience unlocking and true-ups	(23)	(4)	(80)
Amortization—All other	(555)	(60)	(137)
Change in unrealized investment gains and losses	(74)	(11)	(13)
Interest(2)	65	25	27
Foreign currency translation	179	23	(5)
Balance, end of year	$3,845	$484	$ 511

(1) The VOBA balances at December 31, 2011 were $250 million, $29 million, $1,509 million, $1,981 million, and $76 million related to the insurance transactions associated with the CIGNA, Prudential Annuities Holding Co., Edison Inc., Star Inc., and Aoba Life Insurance Company, LTD. ("Aoba Life"), respectively. The weighted average remaining expected life of VOBA varies by product. The weighted average remaining expected lives were approximately 16, 4, 8, 7, and 6 years for the VOBA related to CIGNA, Prudential Annuities Holding Co., Edison Inc., Star Inc. and Aoba Life, respectively.

(2) The interest accrual rates vary by product. The interest rates for 2011 were 7.10%, 4.81%, 1.28% to 2.87%, 1.28% to 2.87% and 2.60% for the VOBA related to CIGNA, Prudential Annuities Holding Co., Edison Inc., Star Inc. and Aoba Life, respectively. The interest rates for 2010 were 7.00%, 4.97%, and 2.60% for the VOBA related to CIGNA, Prudential Annuities Holding Co., and Aoba Life, respectively. The interest rates for 2009 were 5.42%, 6.90%, 5.24%, and 2.60% for the VOBA related to Allstate, CIGNA, American Skandia, and Aoba Life, respectively.

During the first quarter of 2009 the Company recognized impairments of $73 million related to the VOBA associated with the Allstate acquisition. These impairments are included on the "Amortization—Impact of assumption and experience unlocking and true-ups" line in the table above. The impairment recorded in 2009 represented the remaining VOBA balance associated with the Allstate acquisition. These impairments were reflective of the deterioration in the financial markets, which resulted in additional market depreciation within the separate account assets and corresponding decreases in fee income and overall expected future earnings for this business. These impairments were determined using discounted present value of future estimated gross profits. Since the VOBA balance was completely impaired for these contracts, it cannot be reestablished for market value appreciation in subsequent periods. There were no impairments during 2011 and 2010.

The following table provides estimated future amortization, net of interest, for the periods indicated.

	VOBA Amortization
	(in millions)
2012	$ 362
2013	387
2014	336
2015	290
2016	255
2017 and thereafter	2,215
Total	$3,845

9. GOODWILL AND OTHER INTANGIBLES

The changes in the book value of goodwill by area are as follows:

	Individual Annuities	Asset Management	Retirement	International Insurance	International Investments	Real Estate and Relocation Services	Total
				(in millions)			
Balance at December 31, 2008:							
Gross Goodwill	$ 97	$241	$444	$ 17	$ 123	$ 117	$1,039
Accumulated Impairment Losses	(97)	0	0	0	(123)	(117)	(337)
Net Goodwill	0	241	444	17	0	0	702
2009 Activity:							
Other(1)	0	1	0	6	0	0	7
Balance at December 31, 2009:							
Gross Goodwill	97	242	444	23	123	117	1,046
Accumulated Impairment Losses	(97)	0	0	0	(123)	(117)	(337)
Net Goodwill	0	242	444	23	0	0	709
2010 Activity:							
Other(1)	0	(3)	0	1	0	0	(2)
Balance at December 31, 2010:							
Gross Goodwill	97	239	444	24	123	117	1,044
Accumulated Impairment Losses	(97)	0	0	0	(123)	(117)	(337)
Net Goodwill	0	239	444	24	0	0	707
2011 Activity:							
Acquisitions	0	0	0	184	0	0	184
Dispositions Gross Goodwill	0	0	0	0	0	(117)	(117)
Dispositions Accumulated Amortization	0	0	0	0	0	117	117
Other(1)	0	(1)	0	(2)	0	0	(3)
Balance at December 31, 2011:							
Gross Goodwill	97	238	444	206	123	0	1,108
Accumulated Impairment Losses	(97)	0	0	0	(123)	0	(220)
Net Goodwill	$ 0	$238	$444	$206	$ 0	$ 0	$ 888

(1) Other represents foreign currency translation and purchase price adjustments.

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, as discussed in further detail in Note 2.

The Company performed goodwill impairment testing for all reporting units that had goodwill at December 31, 2011 and December 31, 2010 and no impairments were needed.

Other Intangibles

Other intangible balances at December 31, are as follows:

	2011			2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in millions)			
Subject to amortization:						
Mortgage servicing rights	$320	$(159)	$161	$296	$(128)	$168
Customer relationships	288	(126)	162	282	(112)	170
Other	25	(21)	4	29	(22)	7
Not subject to amortization	N/A	N/A	8	N/A	N/A	7
Total			$335			$352

The fair values of net mortgage servicing rights were $164 million and $172 million at December 31, 2011 and 2010, respectively. Amortization expense for other intangibles was $50 million, $45 million and $45 million for the years ending December 31, 2011, 2010

9. GOODWILL AND OTHER INTANGIBLES *(continued)*

and 2009, respectively. Amortization expense for other intangibles is expected to be approximately $47 million in 2012, $44 million in 2013, $39 million in 2014, $35 million in 2015 and $32 million in 2016. The amortization expense amounts listed above for 2011, 2010 and 2009 do not include impairments recorded for mortgage servicing rights. See the non-recurring fair value measurements section of Note 20 for more information regarding these impairments.

10. POLICYHOLDERS' LIABILITIES

Future Policy Benefits

Future policy benefits at December 31, are as follows:

	2011	2010
	(in millions)	
Life insurance	$131,178	$107,320
Individual and group annuities and supplementary contracts	24,840	19,046
Other contract liabilities	11,697	5,031
Subtotal future policy benefits excluding unpaid claims and claim adjustment expenses	167,715	131,397
Unpaid claims and claim adjustment expenses	2,744	2,477
Total future policy benefits	$170,459	$133,874

Life insurance liabilities include reserves for death and endowment policy benefits, terminal dividends and certain health benefits. Individual and group annuities and supplementary contracts liabilities include reserves for life contingent immediate annuities and life contingent group annuities. Other contract liabilities include unearned revenue and certain other reserves for group, annuities and individual life and health products.

Future policy benefits for individual participating traditional life insurance are based on the net level premium method, calculated using the guaranteed mortality and nonforfeiture interest rates which range from 2.5% to 7.5%. Participating insurance represented 5% and 6% of direct individual life insurance in force at December 31, 2011 and 2010, respectively, and 17%, 24% and 28% of direct individual life insurance premiums for 2011, 2010 and 2009, respectively.

Future policy benefits for individual non-participating traditional life insurance policies, group and individual long-term care policies and individual health insurance policies are generally equal to the aggregate of (1) the present value of future benefit payments and related expenses, less the present value of future net premiums, and (2) any premium deficiency reserves. Assumptions as to mortality, morbidity and persistency are based on the Company's experience, and in certain instances, industry experience, when the basis of the reserve is established. Interest rates used in the determination of the present values range from 1.0% to 15.5%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for individual and group annuities and supplementary contracts are generally equal to the aggregate of (1) the present value of expected future payments, and (2) any premium deficiency reserves. Assumptions as to mortality are based on the Company's experience, and in certain instances, industry experience, when the basis of the reserve is established. The interest rates used in the determination of the present values range from 1.0% to 11.9%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for other contract liabilities are generally equal to the present value of expected future payments based on the Company's experience, except for example, certain group insurance coverages for which future policy benefits are equal to gross unearned premium reserves. The interest rates used in the determination of the present values range from 0.1% to 6.0%.

Premium deficiency reserves are established, if necessary, when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses and to recover any unamortized policy acquisition costs. Premium deficiency reserves have been recorded for the group single premium annuity business, which consists of limited-payment, long-duration, traditional, and non-participating annuities; structured settlements; single premium immediate annuities with life contingencies; and for certain individual health policies. Liabilities of $2,447 million and $2,001 million as of December 31, 2011 and 2010, respectively, are included in "Future policy benefits" with respect to these deficiencies, of which $1,432 million and $926 million as of December 31, 2011 and 2010, respectively, relate to net unrealized gains on securities classified as available-for-sale.

The Company's liability for future policy benefits is also inclusive of liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 11 and are primarily reflected in other contract liabilities in the table above.

10. POLICYHOLDERS' LIABILITIES *(continued)*

Unpaid claims and claim adjustment expenses primarily reflect the Company's estimate of future disability claim payments and expenses as well as estimates of claims incurred but not yet reported as of the balance sheet dates related to group disability products. Unpaid claim liabilities are discounted using interest rates ranging from 0% to 6.4%.

Policyholders' Account Balances

Policyholders' account balances at December 31, are as follows:

	2011	2010
	(in millions)	
Individual annuities	$ 41,717	$ 24,387
Group annuities	27,408	23,808
Guaranteed investment contracts and guaranteed interest accounts	17,441	17,454
Funding agreements	4,795	5,162
Interest-sensitive life contracts	23,336	18,065
Dividend accumulation and other	19,855	17,565
Total policyholders' account balances	$134,552	$106,441

Policyholders' account balances represent an accumulation of account deposits plus credited interest less withdrawals, expenses and mortality charges, if applicable. These policyholders' account balances also include provisions for benefits under non-life contingent payout annuities. Included in "Funding agreements" at December 31, 2011 and 2010, are $3,244 million and $3,592 million, respectively, related to the Company's FANIP product which is carried at amortized cost, adjusted for the effective portion of changes in fair value of qualifying derivative financial instruments. For additional details on the FANIP product see Note 5. The interest rates associated with such notes range from 0.5% to 5.5%. Interest crediting rates range from 0% to 10.0% for interest-sensitive life contracts and from 0% to 13.4% for contracts other than interest-sensitive life. Less than 1% of policyholders' account balances have interest crediting rates in excess of 8%.

11. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS

The Company issues traditional variable annuity contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. The Company also issues variable annuity contracts with general and separate account options where the Company contractually guarantees to 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"), or (3) the highest contract value on a specified date minus any withdrawals ("contract value"). These guarantees 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 during specified periods. The Company also issues annuity contracts with market value adjusted investment options ("MVAs"), which provide for a return of principal plus a fixed rate of return if held-to-maturity, or, alternatively, a "market adjusted value" if surrendered prior to maturity or if funds are reallocated to other investment options. The market value adjustment may result in a gain or loss to the Company, depending on crediting rates or an indexed rate at surrender, as applicable.

In addition, the Company issues variable life, variable universal life and universal life contracts where the Company contractually guarantees to the contractholder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse ("no lapse guarantee"). Variable life and variable universal life contracts are offered with general and separate account options.

The assets supporting the variable portion of both traditional variable annuities and certain variable contracts with guarantees are carried at fair value and reported as "Separate account assets" with an equivalent amount reported as "Separate account liabilities." Amounts assessed against the contractholders for mortality, administration, and other services are included within revenue in "Policy charges and fee income" and changes in liabilities for minimum guarantees are generally included in "Policyholders' benefits." In 2011, 2010, and 2009 there were no gains or losses on transfers of assets from the general account to a separate account.

For those guarantees of benefits that are payable in the event of death, the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. The Company's primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at annuitization, the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. The Company's primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, timing of annuitization, contract lapses and contractholder mortality.

11. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS *(continued)*

For guarantees of benefits that are payable at withdrawal, the net amount at risk is generally defined as the present value of the minimum guaranteed withdrawal payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. For guarantees of accumulation balances, the net amount at risk is generally defined as the guaranteed minimum accumulation balance minus the current account balance. The Company's primary risk exposures for these contracts relates 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 or contractholder behavior used in the original pricing of these products.

The Company's contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed may not be mutually exclusive. The liabilities related to the net amount at risk are reflected within "Future policy benefits." As of December 31, 2011 and 2010, the Company had the following guarantees associated with these contracts, by product and guarantee type:

	December 31, 2011		December 31, 2010	
	In the Event of Death	At Annuitization/ Accumulation(1)	In the Event of Death	At Annuitization/ Accumulation(1)
	($ in millions)			
Variable Annuity Contracts				
Return of net deposits				
Account value	$78,436	$ 21	$69,982	$ 24
Net amount at risk	$ 2,083	$ 1	$ 1,132	$ 6
Average attained age of contractholders	61 years	68 years	61 years	67 years
Minimum return or contract value				
Account value	$29,442	$86,648	$29,743	$75,743
Net amount at risk	$ 5,704	$ 6,628	$ 4,327	$ 3,047
Average attained age of contractholders	65 years	61 years	65 years	61 years
Average period remaining until earliest expected annuitization	N/A	1 year	N/A	2 years

(1) Includes income and withdrawal benefits as described herein.

	December 31, 2011		December 31, 2010	
	Unadjusted Value	Adjusted Value	Unadjusted Value	Adjusted Value
	(in millions)			
Variable Annuity Contracts				
Market value adjusted annuities				
Account value	$ 3,842	$ 3,933	$4,023	$4,232

	December 31,	
	2011	2010
	In the Event of Death	
	($ in millions)	
Variable Life, Variable Universal Life and Universal Life Contracts		
No lapse guarantees		
Separate account value	$ 2,915	$ 2,771
General account value	$ 4,023	$ 3,532
Net amount at risk	$ 78,947	$ 73,513
Average attained age of contractholders	48 years	47 years

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31,	
	2011	2010
	(in millions)	
Equity funds	$49,110	$54,775
Bond funds	42,791	28,064
Balanced funds	377	314
Money market funds	7,134	7,932
Total	$99,412	$91,085

In addition to the amounts invested in separate account investment options above, $8,466 million at December 31, 2011 and $8,641 million at December 31, 2010 of account balances of variable annuity contracts with guarantees, inclusive of contracts with MVA features, were invested in general account investment options.

11. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS *(continued)*

Liabilities For Guarantee Benefits

The table below summarizes the changes in general account liabilities for guarantees on variable contracts. The liabilities for guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB") are included in "Future policy benefits" and the related changes in the liabilities are included in "Policyholders' benefits." Guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB"), and guaranteed minimum income and withdrawal benefits ("GMIWB") features are considered to be bifurcated embedded derivatives and are recorded at fair value. Changes in the fair value of these derivatives, including changes in the Company's own risk of non-performance, along with any fees attributed or payments made relating to the derivative, are recorded in "Realized investment gains (losses), net." See Note 20 for additional information regarding the methodology used in determining the fair value of these embedded derivatives. The liabilities for GMAB, GMWB and GMIWB are included in "Future policy benefits." As discussed below, the Company maintains a portfolio of derivative investments that serve as a partial hedge of the risks associated with these products, for which the changes in fair value are also recorded in "Realized investment gains (losses), net." This portfolio of derivative investments does not qualify for hedge accounting treatment under U.S. GAAP.

	GMDB		GMIB	GMAB/ GMWB/ GMIWB
	Variable Life, Variable Universal Life and Universal Life	Variable Annuity	Variable Annuity	Variable Annuity
	(in millions)			
Balance at December 31, 2008	$122	$ 563	$ 259	$ 3,229
Incurred guarantee benefits—Impact of assumption and experience unlocking and true-ups(1)	15	(197)	(94)	0
Incurred guarantee benefits—All other(1)	47	174	68	(3,174)
Paid guarantee benefits and other	(8)	(244)	(32)	0
Balance at December 31, 2009	176	296	201	55
Incurred guarantee benefits—Impact of assumption and experience unlocking and true-ups(1)	(29)	(116)	(20)	0
Incurred guarantee benefits—All other(1)	55	137	55	(259)
Paid guarantee benefits and other	0	(129)	(122)	0
Balance at December 31, 2010	202	188	114	(204)
Incurred guarantee benefits—Impact of assumption and experience unlocking and true-ups(1)	8	94	5	0
Incurred guarantee benefits—All other(1)	71	147	26	3,061
Paid guarantee benefits	(2)	(113)	(42)	0
Other(2)	9	3	302	29
Balance at December 31, 2011	$288	$ 319	$ 405	$ 2,886

(1) Incurred guarantee benefits include the portion of assessments established as additions to reserves as well as changes in estimates affecting the reserves. Also includes changes in the fair value of features considered to be derivatives.
(2) Primarily represents amounts acquired from Star and Edison. Edison activity represents fixed annuity products.

The GMDB liability is determined each period end by estimating the accumulated value of a portion of the total assessments to date less the accumulated value of the death benefits in excess of the account balance. The GMIB liability is determined each period by estimating the accumulated value of a portion of the total assessments to date less the accumulated value of the projected income benefits in excess of the account balance. The portion of assessments used is chosen such that, at issue (or, in the case of acquired contracts at the acquisition date) the present value of expected death benefits or expected income benefits in excess of the projected account balance and the portion of the present value of total expected assessments over the lifetime of the contracts are equal. The Company regularly evaluates the estimates used and adjusts the GMDB and GMIB liability balances, with an associated charge or credit to earnings, if actual experience or other evidence suggests that earlier assumptions should be revised.

The GMAB features provide the contractholder with a guaranteed return of initial account value or an enhanced value if applicable. The most significant of the Company's GMAB features are the guaranteed return option ("GRO") features, which includes an automatic rebalancing element that reduces the Company's exposure to these guarantees. The GMAB liability is calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature.

The GMWB features provide the contractholder with a guaranteed remaining balance if the account value is reduced to zero through a combination of market declines and withdrawals. The guaranteed remaining balance is generally equal to the protected value under the contract, which is initially established as the greater of the account value or cumulative deposits when withdrawals commence, less cumulative withdrawals. The contractholder also has the option, after a specified time period, to reset the guaranteed remaining balance to the then-current account value, if greater. The GMWB liability is calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature.

11. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS *(continued)*

The GMIWB features predominantly present a benefit that provides a contractholder two optional methods to receive guaranteed minimum payments over time, a "withdrawal" option or an "income" option. The withdrawal option guarantees that, upon the election of such benefit, a contract holder can withdraw an amount each year until the cumulative withdrawals reach a total guaranteed balance. The guaranteed remaining balance is generally equal to the protected value under the contract, which is initially established as the greater of: (1) the account value on the date of first withdrawal; (2) cumulative deposits when withdrawals commence, less cumulative withdrawals plus a minimum return; or (3) the highest contract value on a specified date minus any withdrawals. The income option guarantees that a contract holder can, upon the election of this benefit, withdraw a lesser amount each year for the annuitant's life based on the total guaranteed balance. The withdrawal or income benefit can be elected by the contract holder upon issuance of an appropriate deferred variable annuity contract or at any time following contract issue prior to annuitization. Certain GMIWB features include an automatic rebalancing element that reduces the Company's exposure to these guarantees. The GMIWB liability is calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature.

As part of its risk management strategy, the Company hedges or limits its exposure to these risks, excluding those risks that have been deemed suitable to retain and risks that are not able to be hedged, through a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments, such as equity options and interest rate derivatives. 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 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 of the contractholder's total account value. In general, negative investment performance may result in transfers to 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. Other product design elements utilized for certain products to manage these risks include asset allocation restrictions and minimum issuance age requirements. For risk management purposes the Company segregates the variable annuity living benefit features into those that include the automatic rebalancing element, including certain GMIWB riders and certain GMAB riders that feature the GRO policyholder benefits; and those that do not include the automatic rebalancing element, including certain legacy GMIWB, GMWB, GMAB and GMIB riders. Living benefit riders that include the automatic rebalancing element also include GMDB riders, and as such the GMDB risk in these riders also benefits from the automatic rebalancing element.

Sales Inducements

The Company defers sales inducements and amortizes them over the anticipated life of the policy using the same methodology and assumptions used to amortize deferred policy acquisition costs. These deferred sales inducements are included in "Other assets." The Company offers various types of sales inducements. These inducements include: (1) a bonus whereby the policyholder's initial account balance is increased by an amount equal to a specified percentage of the customer's initial deposit, (2) additional credits after a certain number of years a contract is held and (3) enhanced interest crediting rates that are higher than the normal general account interest rate credited in certain product lines. Changes in deferred sales inducements, reported as "Interest credited to policyholders' account balances," are as follows:

	Sales Inducements
	(in millions)
Balance at December 31, 2008	$1,023
Capitalization	390
Amortization—Impact of assumption and experience unlocking and true-ups	16
Amortization—All other	(213)
Change in unrealized investment gains and losses	(99)
Balance at December 31, 2009	1,117
Capitalization	431
Amortization—Impact of assumption and experience unlocking and true-ups	52
Amortization—All other	(267)
Change in unrealized investment gains and losses	15
Balance at December 31, 2010	1,348
Capitalization	359
Amortization—Impact of assumption and experience unlocking and true-ups	(81)
Amortization—All other	(645)
Change in unrealized investment gains and losses and other	20
Balance at December 31, 2011	$1,001

12. CLOSED BLOCK

On the date of demutualization, Prudential Insurance established a Closed Block for certain individual life insurance policies and annuities issued by Prudential Insurance in the U.S. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block Business. For a discussion of the Closed Block Business see Note 22.

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

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

As of December 31, 2011 and 2010, the Company recognized a policyholder dividend obligation of $762 million and $126 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $3,847 million and $2,117 million at December 31, 2011 and 2010, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in “Accumulated other comprehensive income (loss).” See the table below for changes in the components of the policyholder dividend obligation for the years ended December 31, 2011 and 2010.

On December 13, 2011 and December 14, 2010, Prudential Insurance’s Board of Directors approved a continuation of the Closed Block dividend scales in 2012 and 2011, respectively. On December 8, 2009, Prudential Insurance’s Board of Directors acted to reduce the dividends payable in 2010 on Closed Block policies. This decrease reflected the deterioration in investment results and resulted in a $98 million reduction of the liability for policyholder dividends recognized in the year ended December 31, 2009.

12. CLOSED BLOCK *(continued)*

Closed Block Liabilities and Assets designated to the Closed Block at December 31, as well as maximum future earnings to be recognized from Closed Block Liabilities and Closed Block Assets, are as follows:

	2011	2010
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$51,424	$51,632
Policyholders' dividends payable	902	909
Policyholders' dividend obligation	4,609	2,243
Policyholders' account balances	5,484	5,536
Other Closed Block liabilities	4,030	4,637
Total Closed Block Liabilities	66,449	64,957
Closed Block Assets		
Fixed maturities, available-for-sale, at fair value	42,024	41,044
Other trading account assets, at fair value	269	150
Equity securities, available-for-sale, at fair value	3,122	3,545
Commercial mortgage and other loans	8,322	7,827
Policy loans	5,296	5,377
Other long-term investments	2,080	1,662
Short-term investments	485	1,119
Total investments	61,598	60,724
Cash and cash equivalents	1,006	345
Accrued investment income	571	600
Other Closed Block assets	284	275
Total Closed Block Assets	63,459	61,944
Excess of reported Closed Block Liabilities over Closed Block Assets	2,990	3,013
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,836	2,092
Allocated to policyholder dividend obligation	(3,847)	(2,117)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 2,979	$ 2,988

Information regarding the policyholder dividend obligation is as follows:

	2011	2010
	(in millions)	
Balance, January 1	$2,243	$ 0
Impact from earnings allocable to policyholder dividend obligation	636	126
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	1,730	2,117
Balance, December 31	$4,609	$2,243

Closed Block revenues and benefits and expenses for the years ended December 31, were as follows:

	2011	2010	2009
		(in millions)	
Revenues			
Premiums	$2,918	$3,007	$ 3,250
Net investment income	2,976	2,994	2,907
Realized investment gains (losses), net	855	804	(1,219)
Other income	38	38	102
Total Closed Block revenues	6,787	6,843	5,040
Benefits and Expenses			
Policyholders' benefits	3,482	3,512	3,762
Interest credited to policyholders' account balances	139	140	141
Dividends to policyholders	2,571	2,071	1,222
General and administrative expenses	519	540	568
Total Closed Block benefits and expenses	6,711	6,263	5,693
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	76	580	(653)
Income tax expense (benefit)	67	(38)	(63)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	9	618	(590)
Income from discontinued operations, net of taxes	0	1	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ 9	$ 619	$ (590)

13. REINSURANCE

The Company participates in reinsurance in order to provide additional capacity for future growth, to limit the maximum net loss potential arising from large risks and in acquiring or disposing of businesses.

In 2006, the Company acquired the variable annuity business of The Allstate Corporation ("Allstate") through a reinsurance transaction. The reinsurance arrangements with Allstate include a coinsurance arrangement associated with the general account liabilities assumed and a modified coinsurance arrangement associated with the separate account liabilities assumed. The reinsurance payable, which represents the Company's obligation under the modified coinsurance arrangement, is netted with the reinsurance receivable in the Company's Consolidated Statement of Financial Position.

In 2004, the Company acquired the retirement business of CIGNA and as a result, entered into various reinsurance arrangements. The Company still has indemnity coinsurance and modified coinsurance without assumption arrangements in effect related to this acquisition.

Life and disability reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term, per person excess and coinsurance. In addition, the Company has reinsured with unaffiliated third parties, 83% of the Closed Block through various modified coinsurance arrangements. The Company accounts for these modified coinsurance arrangements under the deposit method of accounting. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. The cost of reinsurance related to short-duration contracts is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers, for both short-and long-duration reinsurance arrangements, are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies.

The tables presented below exclude amounts pertaining to the Company's discontinued operations.

Reinsurance amounts included in the Consolidated Statements of Operations for premiums, policy charges and fees and policyholders' benefits for the years ended December 31, were as follows:

	2011	2010	2009
		(in millions)	
Direct premiums	$25,563	$19,360	$17,787
Reinsurance assumed	128	163	90
Reinsurance ceded	(1,353)	(1,263)	(1,332)
Premiums	$24,338	$18,260	$16,545
Direct policy charges and fees	$ 3,894	$ 3,239	$ 2,777
Reinsurance assumed	124	140	139
Reinsurance ceded	(94)	(58)	(83)
Policy charges and fees	$ 3,924	$ 3,321	$ 2,833
Direct policyholder benefits	$24,638	$19,246	$17,565
Reinsurance assumed	289	286	149
Reinsurance ceded	(1,313)	(1,247)	(1,368)
Policyholders' benefits	$23,614	$18,285	$16,346

Reinsurance recoverables at December 31, are as follows:

	2011	2010
	(in millions)	
Individual and group annuities(1)	$ 722	$1,075
Life Insurance	661	635
Other reinsurance	148	127
Total reinsurance recoverable	$1,531	$1,837

(1) Primarily represents reinsurance recoverables established under the reinsurance arrangements associated with the acquisition of the retirement business of CIGNA. The Company has recorded related reinsurance payables of $713 million and $1,068 million at December 31, 2011 and 2010, respectively.

Excluding the reinsurance recoverable associated with the acquisition of the retirement business of CIGNA, four major reinsurance companies account for approximately 58% of the reinsurance recoverable at December 31, 2011. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable therefrom in order to minimize its exposure to loss from reinsurer insolvencies, recording an allowance when necessary for uncollectible reinsurance.

14. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

Short-term debt at December 31, is as follows:

	2011	2010
	(in millions)	
Commercial paper	$1,166	$1,157
Other notes payable(1)	209	278
Current portion of long-term debt	961	547
Total short-term debt(2)	$2,336	$1,982

(1) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $199 million and $275 million at December 31, 2011 and 2010, respectively, discussed in more detail below.
(2) Includes Prudential Financial debt of $1,252 million and $769 million at December 31, 2011 and 2010, respectively.

The weighted average interest rate on outstanding short-term debt, excluding the current portion of long-term debt was 0.31% and 0.39% at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the Company was in compliance with all covenants related to the above debt.

Commercial Paper

The Company issues commercial paper under the two programs described below. At December 31, 2011 and 2010, the weighted average maturity of total commercial paper outstanding was 21 and 34 days, respectively.

Prudential Financial has a commercial paper program with an authorized capacity of $3.0 billion. Prudential Financial commercial paper borrowings have been generally used to fund the working capital needs of Prudential Financial's subsidiaries and provide short-term liquidity at Prudential Financial. Prudential Financial's outstanding commercial paper borrowings were $296 million and $283 million at December 31, 2011 and 2010, respectively.

Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program, with an authorized capacity of $7.0 billion. Prudential Funding commercial paper borrowings have generally served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance. Prudential Funding's outstanding commercial paper borrowings were $870 million and $874 million at December 31, 2011 and 2010, respectively. Prudential Financial has issued a subordinated guarantee covering Prudential Funding's domestic commercial paper program.

Federal Home Loan Bank of New York

Prudential Insurance is a member of the Federal Home Loan Bank of New York ("FHLBNY"). Membership allows Prudential Insurance access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements that can be used as an alternative source of liquidity. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings, depending on the type of asset pledged. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if Prudential Insurance's financial strength ratings decline below A/A2/A Stable by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance ("NJDOBI") regarding Prudential Insurance's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY. All FHLBNY stock purchased by Prudential Insurance is classified as restricted general account investments within "Other long-term investments," and the carrying value of these investments was $173 million and $177 million as of December 31, 2011 and 2010, respectively.

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

As of December 31, 2011, Prudential Insurance had pledged qualifying assets with a fair value of $2.8 billion, which supported outstanding collateralized advances of $0.9 billion and collateralized funding agreements of $1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $5.6 billion as of December 31, 2011.

As of December 31, 2011, $199 million of the FHLBNY outstanding advances is reflected in "Short-term debt" and matures in December 2012 and the remaining $725 million is in "Long-term debt" and matures in December 2015. The funding agreements issued to the FHLBNY, which are reflected in "Policyholders' account balances," have priority claim status above debt holders of Prudential Insurance.

14. SHORT-TERM AND LONG-TERM DEBT *(continued)*

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company ("PRIAC") is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Membership allows PRIAC access to collateralized advances which will be classified in "Short-term debt" or "Long-term debt," depending on the maturity date of the obligation. PRIAC's membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of December 31, 2011, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance ("CTDOI") permits PRIAC to pledge up to $2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of December 31, 2011, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately $1.2 billion.

Credit Facilities

As of December 31, 2011, Prudential Financial and Prudential Funding maintained an aggregate of $3,750 million of revolving credit facilities, which includes a $2,000 million five-year credit facility that has Prudential Financial as borrower and a $1,750 million three-year credit facility that has both Prudential Financial and Prudential Funding as borrowers. These credit facilities were entered into in December 2011 and replaced the previously-existing $3,928 million of credit facilities. There were no outstanding borrowings under these credit facilities as of December 31, 2011.

Each of the facilities is available to the applicable borrowers up to the aggregate committed credit and may be used for general corporate purposes, including as backup liquidity for the Company's commercial paper programs discussed above. Prudential Financial expects that it may borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used to meet the Company's operating needs.

The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on the Company's credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities are conditioned on the continued satisfaction of other customary conditions, including the maintenance at all times of consolidated net worth, relating to the Company's Financial Services Businesses only, of at least $21.25 billion, which for this purpose is calculated as U.S. GAAP equity, excluding "Accumulated other comprehensive income (loss)" and excluding equity of noncontrolling interests. Under the applicable credit agreements, the required minimum level of consolidated net worth will be reduced automatically in the future by an amount equal to 85 percent of the amount of any reduction, on an after-tax basis, in the total U.S. GAAP equity attributable to the Company's Financial Services Businesses, resulting from the Company's expected retrospective application of FASB's amended authoritative guidance regarding the deferral of costs relating to the acquisition of new or renewal insurance contracts.

As of December 31, 2011, the consolidated net worth of the Company's Financial Services Businesses exceeded the minimum amount required to borrow under the credit facilities.

In addition to the above credit facilities, the Company had access to $860 million of certain other lines of credit at December 31, 2011, of which $815 million was related to its real estate separate accounts activities. At December 31, 2011, $30 million of these credit facilities were used. The Company also has access to uncommitted lines of credit from financial institutions.

Long-term Debt

Long-term debt at December 31, is as follows:

	Maturity Dates	Rate	2011	2010
			(in millions)	
Prudential Holdings, LLC notes (the "IHC debt"):				
Series A	2017(1)	(2)	$ 333	$ 333
Series B	2023(1)	7.245%	777	777
Series C	2023(1)	8.695%	640	640
Fixed-rate notes:				
Surplus notes subject to set-off arrangements	2021	4.99%-5.22%	500	0
Surplus notes	2015-2025	5.36%-8.30%	940	942
Other fixed-rate notes(3)	2012-2041	2.21%-11.31%	16,353	15,879
Floating-rate notes:				
Surplus notes	2016-2052	(4)	3,200	3,200
Yen-denominated notes	(5)	(6)	520	0
Other floating-rate notes	2012-2020	(7)	340	363
Junior subordinated notes	2068	8.88%-9.00%	1,519	1,519
Subtotal			25,122	23,653
Less: assets under set-off arrangements(8)			500	0
Total long-term debt(9)			$24,622	$23,653

14. SHORT-TERM AND LONG-TERM DEBT *(continued)*

(1) Annual scheduled repayments of principal for the Series A and Series C notes begin in 2013. Annual scheduled repayments of principal for the Series B notes begin in 2018.
(2) The interest rate on the Series A notes is a floating rate equal to LIBOR plus 0.875% per year. The interest rate ranged from 1.1% to 1.4% for both 2011 and 2010.
(3) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $725 million at December 31, 2011 and 2010. These borrowings are discussed in more detail above.
(4) The interest rate on the floating rate Surplus notes ranged from 0.5% to 3.6% in 2011 and 0.5% to 3.7% in 2010.
(5) The yen-denominated notes include $80 million of perpetual debt that has no stated maturity. Maturities on the remaining debt ranges from 2014 to 2026.
(6) The interest rates on the yen-denominated notes are based on euro/yen LIBOR. Interest rates ranged from 0.8% to 1.7% in 2011.
(7) The interest rates on the other floating rate notes are based on LIBOR and the U.S. Consumer Price Index. Interest rates ranged from 1.8% to 6.6% in 2011 and 0.0% to 5.5% in 2010.
(8) Assets under set-off arrangements represent a reduction in the amount of fixed-rate surplus notes included in long-term debt, relating to an arrangement where valid rights of set-off exist and it is the intent of both parties to settle on a net basis under legally enforceable arrangements.
(9) Includes Prudential Financial debt of $17,300 million and $16,841 million at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, the Company was in compliance with all debt covenants related to the borrowings in the table above.

The following table presents the Company's contractual maturities of its long-term debt as of December 31, 2011:

	Long-term Debt
	(in millions)
Calendar Year:	
2013	$ 1,825
2014	2,064
2015	3,159
2016	1,502
2017 and thereafter	16,072
Total	$24,622

Surplus Notes

The fixed-rate surplus notes issued by Prudential Insurance are subordinated to other Prudential Insurance borrowings and policyholder obligations, and the payment of interest and principal may only be made with the prior approval of the Commissioner of Banking and Insurance of the State of New Jersey (the "Commissioner"). The Commissioner could prohibit the payment of the interest and principal on the surplus notes if certain statutory capital requirements are not met. At December 31, 2011 and 2010, the Company met these statutory capital requirements.

During 2011, a subsidiary of Prudential Insurance entered into agreements providing for the issuance and sale of up to $1 billion of ten-year fixed rate surplus notes in order to finance reserves required under Regulation XXX. At December 31, 2011, $500 million of surplus notes were outstanding under this facility. Under the agreements, the subsidiary issuer received debt securities, with a principal amount equal to the surplus notes issued, which are redeemable under certain circumstances, including upon the occurrence of specified stress events affecting the subsidiary issuer. Because valid rights of set-off exist, interest and principal payments on the surplus notes and on the debt securities are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis. Prudential Financial has agreed to make capital contributions to the subsidiary issuer in order to reimburse it for investment losses in excess of specified amounts.

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 adjustments. The exchange rate is also subject to a make-whole decrease in the event of an exchange prior to maturity (except upon a fundamental business combination or a continuing payment default), that will result in a reduction in the number of shares issued upon exchange (per $1,000 principal amount of surplus notes) determined by dividing a prescribed cash reduction value (which will decline over the life of the surplus notes, from $102.62 for an exercise on September 18, 2014 to zero for an exercise at maturity) by the price of the Common Stock at the time of exchange. In addition, the exchange rate is subject to a customary make-whole increase in connection with an exchange of the surplus notes upon a fundamental business combination where 10% or more of the consideration in that business combination consists of cash, other property or securities that are not listed on a U.S. national securities exchange.

These exchangeable surplus notes are not redeemable by Prudential Insurance prior to maturity, except in connection with a fundamental business combination involving Prudential Financial, in which case the surplus notes will be redeemable by Prudential Insurance, subject to the noteholders' right to exchange the surplus notes instead, at par or, if greater, a make-whole redemption price. The surplus notes are subordinated to all other Prudential Insurance borrowings and policyholder obligations, except for other surplus notes of Prudential Insurance (including those currently outstanding), with which the surplus notes rank *pari passu*. Payments of interest and principal on the surplus notes may only be made with the prior approval of the Commissioner.

14. SHORT-TERM AND LONG-TERM DEBT *(continued)*

During 2007, a subsidiary of Prudential Insurance issued $500 million of 45-year floating-rate surplus notes to an unaffiliated financial institution. Surplus notes issued under this facility are subordinated to policyholder obligations, and the payment of interest and principal on them may only be made by the issuer with the prior approval of the Arizona Department of Insurance. Concurrent with the issuance of these surplus notes, Prudential Financial entered into a credit derivative that will require Prudential Financial to make certain payments in the event of deterioration in the value of the surplus notes. As of December 31, 2011 and 2010, the credit derivative was a liability of $77 million and $26 million, respectively, with no requirement to pledge collateral.

During 2006, a subsidiary of Prudential Insurance entered into a surplus note purchase agreement with an unaffiliated financial institution that provides for the issuance of up to $3,000 million of ten-year floating-rate surplus notes. At both December 31, 2011 and 2010, $2,700 million were outstanding under this agreement. Concurrent with the issuance of each surplus note, Prudential Financial enters into arrangements with the buyer, which are accounted for as derivative instruments that may result in payments by, or to, Prudential Financial over the term of the surplus notes, to the extent there are significant changes in the value of the surplus notes. Surplus notes issued under this facility are subordinated to policyholder obligations, and the payment of interest and principal on them may only be made by the issuer with the prior approval of the Arizona Department of Insurance. As of December 31, 2011 and 2010, these derivative instruments had no material value.

Junior Subordinated Notes

In June and July 2008, Prudential Financial issued $600 million of 8.875% fixed-to-floating rate junior subordinated notes to institutional investors and $920 million of 9% fixed-rate junior subordinated notes to retail investors. Both issuances are considered hybrid capital securities, which receive enhanced equity treatment from the rating agencies. Both series of notes have a scheduled maturity of June 15, 2038 and a final maturity of June 15, 2068. Prudential Financial is required to use commercially reasonable efforts, subject to market disruption events, to raise sufficient proceeds from the issuance of specified qualifying capital securities, which include hybrid capital securities, to repay the principal of the notes at their scheduled maturity. For the institutional notes, interest is payable semi-annually at a fixed rate of 8.875% until June 15, 2018, from which date interest is payable quarterly at a floating rate of 3-month LIBOR plus 5.00%. Prudential Financial may redeem the institutional notes, subject to the terms of the replacement capital covenant ("RCC"), as discussed below, in whole or in part, on or after June 15, 2018 at their principal amount plus accrued and unpaid interest or prior to June 15, 2018 at a make-whole price. Prudential Financial may redeem the retail notes, subject to the terms of the RCC as discussed below, on or after June 15, 2013, in whole or in part, at their principal amount plus accrued and unpaid interest or prior to June 15, 2013, in whole, at a make-whole price. Both series of notes may also be redeemed in whole upon the occurrence of certain defined events. Prudential Financial has the right to defer interest payments on either or both series of notes for a period up to ten years, during which time interest will be compounded. If Prudential Financial were to exercise its right to defer interest it will be required, commencing on the earlier of (i) the first interest payment date on which current interest is paid after the deferral period or (ii) the fifth anniversary of the deferral period, to issue specified alternative payment securities, which include but are not limited to Common Stock, to satisfy its obligation with respect to the deferred interest. In connection with the issuance of both series of notes, Prudential Financial entered into a RCC for the benefit of holders of the Company's 6.625% Senior Notes due 2037. Under the RCC, Prudential Financial agreed that it will not repay, redeem, defease, or purchase these junior subordinated notes prior to June 15, 2048, unless it has received proceeds from the issuance of specified replacement capital securities, which include but are not limited to hybrid capital securities as well as Common Stock. The RCC will terminate upon the occurrence of certain events, including acceleration due to an event of default.

Medium-term Notes

Prudential Financial maintains a Medium-term Notes, Series D program under its shelf registration statement with an authorized issuance capacity of $20 billion. As of December 31, 2011, the outstanding balance of Medium-term notes was $14.1 billion, an increase of $1.1 billion from December 31, 2010, resulting primarily from $1.5 billion of issuances presented in the below table, partially offset by a maturity of $0.4 billion.

Issue Date	Face Value (in millions)	Interest Rate	Maturity Date
May 12, 2011	$500	3.000%	May 12, 2016
May 12, 2011	$300	5.625%	May 12, 2041
November 16, 2011	$400	4.500%	November 16, 2021
November 16, 2011	$325	5.800%	November 16, 2041

Retail Medium-term Notes

Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of $5.0 billion. As of December 31, 2011, the outstanding balance of retail notes was $2.6 billion, a decrease of $154 million from December 31, 2010, resulting primarily from maturities and redemptions at the request of the Company.

Star and Edison Businesses Acquisition

On February 1, 2011, the Company completed the acquisition of the Star and Edison Businesses from AIG. In conjunction with this acquisition, the Company assumed ¥47.8 billion of long-term debt, of which ¥32.5 billion and ¥5.3 billion are scheduled to mature in 2014 and 2026, respectively, and ¥10 billion of debt has no stated maturity date. The carrying value of the debt at December 31, 2011, was $520 million. The Star and Edison Businesses hold $79 million of the Company's medium-term notes. As a result, the acquisition of the Star and Edison Businesses by the Company resulted in a $79 million reduction of the Company's consolidated long-term debt.

14. SHORT-TERM AND LONG-TERM DEBT *(continued)*

Other

In order to modify exposure to interest rate and currency exchange rate movements, the Company utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issues. The impact of these derivative instruments are not reflected in the rates presented in the tables above. For those derivative instruments that qualify for hedge accounting treatment, interest expense was increased by $12 million, by $5 million, and by $13 million for the years ended December 31, 2011, 2010, and 2009, respectively. See Note 21 for additional information on the Company's use of derivative instruments.

Interest expense for short-term and long-term debt was $1,315 million, $1,224 million and $1,168 million for the years ended December 31, 2011, 2010 and 2009, respectively. This includes interest expense of $17 million, $39 million and $93 million for the years ended December 31, 2011, 2010 and 2009, respectively, reported in "Net investment income."

Included in "Policyholders' account balances" are additional debt obligations of the Company. See Notes 5 and 10 for further discussion.

Prudential Holdings, LLC Notes

On December 18, 2001, the date of demutualization, Prudential Holdings, LLC ("PHLLC"), a wholly-owned subsidiary of Prudential Financial, issued $1,750 million in senior secured notes (the "IHC debt"). PHLLC owns the capital stock of Prudential Insurance and does not have any operating businesses of its own. The IHC debt represents senior secured obligations of PHLLC with limited recourse; neither Prudential Financial, Prudential Insurance nor any other affiliate of PHLLC is an obligor or guarantor on the IHC debt. The IHC debt is collateralized by 13.8% of the outstanding common stock of Prudential Insurance and other items specified in the indenture, primarily the "Debt Service Coverage Account" (the "DSCA") discussed below.

PHLLC's ability to meet its obligations under the IHC debt is dependent principally upon sufficient available funds being generated by the Closed Block Business and the ability of Prudential Insurance, the sole direct subsidiary of PHLLC, to dividend such funds to PHLLC. The payment of scheduled principal and interest on the Series A notes and the Series B notes is insured by a financial guarantee insurance policy. The payment of principal and interest on the Series C notes is not insured. The IHC debt is redeemable prior to its stated maturity at the option of PHLLC and, in the event of certain circumstances, the IHC debt bond insurer can require PHLLC to redeem the IHC debt.

Net proceeds from the IHC debt amounted to $1,727 million, of which, $1,218 million was distributed to Prudential Financial through a dividend on the date of demutualization for use in the Financial Services Businesses. In addition, $72 million was used to purchase a guaranteed investment contract to fund a portion of the financial guarantee insurance premium related to the IHC debt. The remainder of the net proceeds was deposited to a restricted account within PHLLC, referred to as the DSCA, and constitutes collateral for the IHC debt. The balance in the DSCA was $764 million as of December 31, 2011.

Summarized consolidated financial data for Prudential Holdings, LLC is presented below.

	As of December 31,	
	2011	2010
	(in millions)	
Consolidated Statements of Financial Position:		
Total assets	$401,559	$374,655
Total liabilities	$380,644	$354,409
Total member's equity	20,906	20,223
Noncontrolling interests	9	23
Total equity	20,915	20,246
Total liabilities and equity	$401,559	$374,655

	Years Ended December 31,		
	2011	2010	2009
		(in millions)	
Consolidated Statements of Operations:			
Total revenues	$ 25,239	$ 23,959	$20,223
Total benefits and expenses	24,229	21,300	19,934
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	1,010	2,659	289
Net income	801	1,955	2,241
Less: Income (loss) attributable to noncontrolling interests	(13)	1	1
Net income attributable to Prudential Holdings, LLC.	$ 814	$ 1,954	$ 2,240

14. SHORT-TERM AND LONG-TERM DEBT *(continued)*

	Years Ended December 31, 2011	2010	2009
	(in millions)		
Consolidated Statements of Cash Flows:			
Cash flows from operating activities	$ 3,465	$ 1,492	$ 3,065
Cash flows from (used in) investing activities	(4,741)	(3,684)	5,375
Cash flows used in financing activities	2,278	(1,367)	(9,389)
Effect of foreign exchange in cash and cash equivalents	(15)	(28)	9
Net increase (decrease) in cash and cash equivalents	$ 987	$(3,587)	$ (940)

Prudential Financial is a holding company and is a legal entity separate and distinct from its subsidiaries. The rights of Prudential Financial to participate in any distribution of assets of any subsidiary, including upon its liquidation or reorganization, are subject to the prior claims of creditors of that subsidiary, except to the extent that Prudential Financial may itself be a creditor of that subsidiary and its claims are recognized. PHLLC and its subsidiaries have entered into covenants and arrangements with third parties in connection with the issuance of the IHC debt which are intended to confirm their separate, "bankruptcy-remote" status, by assuring that the assets of PHLLC and its subsidiaries are not available to creditors of Prudential Financial or its other subsidiaries, except and to the extent that Prudential Financial and its other subsidiaries are, as shareholders or creditors of PHLLC and its subsidiaries, or would be, entitled to those assets.

At December 31, 2011, the Company was in compliance with all IHC debt covenants.

15. EQUITY

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

	Common Stock: Issued	Common Stock: Held In Treasury	Common Stock: Outstanding	Class B Stock: Issued and Outstanding
			(in millions)	
Balance, December 31, 2008	604.9	183.6	421.3	2.0
Common Stock issued(2)	36.9	0.0	36.9	0.0
Common Stock acquired	0.0	0.0	0.0	0.0
Stock-based compensation programs(1)	0.0	(3.9)	3.9	0.0
Balance, December 31, 2009	641.8	179.7	462.1	2.0
Common Stock issued(3)	18.3	0.0	18.3	0.0
Common Stock acquired	0.0	0.0	0.0	0.0
Stock-based compensation programs(1)	0.0	(3.4)	3.4	0.0
Balance, December 31, 2010	660.1	176.3	483.8	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	19.8	(19.8)	0.0
Stock-based compensation programs(1)	0.0	(4.0)	4.0	0.0
Balance, December 31, 2011	660.1	192.1	468.0	2.0

(1) Represents net shares issued from treasury pursuant to the Company's stock-based compensation program as discussed in Note 17.
(2) In June 2009, the Company issued 36,858,975 shares of Common Stock in a public offering at a price of $39.00 per share for net proceeds of $1.391 billion.
(3) In November 2010, the Company issued 18,348,624 shares of Common Stock in a public offering at a price of $54.50 per share for net proceeds of $970 million.

Common Stock and Class B Stock

On the date of demutualization, Prudential Financial completed an initial public offering of its Common Stock at an initial public offering price of $27.50 per share. The shares of Common Stock issued were in addition to shares of Common Stock the Company distributed to policyholders as part of the demutualization. The Common Stock is traded on the New York Stock Exchange under the symbol "PRU." Also on the date of demutualization, Prudential Financial completed the sale, through a private placement, of 2.0 million shares of Class B Stock at a price of $87.50 per share. The Class B Stock is a separate class of common stock which is not publicly traded. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses and holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business and holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

15. EQUITY *(continued)*

Common Stock Held in Treasury

Common Stock held in treasury is accounted for at average cost. Gains resulting from the reissuance of "Common Stock held in treasury" are credited to "Additional paid-in capital." Losses resulting from the reissuance of "Common Stock held in treasury" are charged first to "Additional paid-in capital" to the extent the Company has previously recorded gains on treasury share transactions, then to "Retained earnings."

In June 2011, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to $1.5 billion of its outstanding Common Stock through June 2012. The timing and amount of any share repurchases will be determined by management based on market conditions and other considerations, and the repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act. Numerous factors could affect the timing and amount of any repurchases under the share repurchase program, including increased capital needs of the Company's businesses due to opportunities for growth and acquisitions, as well as adverse market conditions. During 2011, the Company acquired 19.8 million shares of its Common Stock under this authorization at a total cost of $999.5 million.

The timing and amount of repurchases under these authorizations were determined by management based upon market conditions and other considerations, with repurchases effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) of the Exchange Act.

Stock Conversion Rights of the Class B Stock

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

Holders of Class B Stock 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"; 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 Securities Exchange Act of 1934) 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.

Dividends

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and interest income from its subsidiaries, and cash and short-term investments. The primary uses of funds at Prudential Financial include servicing its debt and the payment of declared shareholder dividends, operating expenses and capital contributions and obligations to its subsidiaries.

The regulated insurance and various other subsidiaries are subject to regulatory limitations on their payment of dividends and other transfers of funds to Prudential Financial. With respect to Prudential Insurance, New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or other distributions paid by Prudential Insurance may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2011, Prudential Insurance's unassigned surplus was $5,070 million, and it recorded applicable adjustments for cumulative unrealized investment gains of $2,184 million. Prudential Insurance must give prior notification to the New Jersey Department of Banking and Insurance (the "Department") of its intent to pay any dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of Prudential Insurance's statutory surplus as of the preceding December 31 ($8,160 million as of December 31, 2011) or (ii) its statutory net gain from operations excluding realized investment gains and losses for the twelve month period ending on the preceding December 31, ($584 million for the year ended December 31, 2011), the dividend is considered to be an "extraordinary dividend" and the prior approval of the Department is required for the payment of the dividend.

The laws regulating dividends of Prudential Financial's other insurance subsidiaries domiciled in other states and foreign jurisdictions are similar, but not identical, to New Jersey's. Further, as a result of Gibraltar Life's reorganization in 2001, in addition to regulatory restrictions, certain other restrictions precluded Gibraltar Life from paying common stock dividends to Prudential Financial. However, the Company anticipates that following the merger of Gibraltar, Star and Edison, the merged entity will be able to pay common stock dividends to Prudential Financial, subject to legal and regulatory restrictions.

The declaration and payment of dividends on the Common Stock depends primarily upon the financial condition, results of operations, cash requirements, future prospects and other factors relating to the Financial Services Businesses. Furthermore, dividends on the Common Stock are limited to both the amount that is legally available for payment under New Jersey corporate law if the Financial Services Businesses were treated as a separate corporation thereunder and the amount that is legally available for payment under New Jersey corporate law on a consolidated basis after taking into account dividends on the Class B Stock.

15. EQUITY *(continued)*

The declaration and payment of dividends on the Class B Stock depends 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 are 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 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, Prudential Financial retains the flexibility to suspend dividends on the Class B Stock; however, if CB Distributable Cash Flow exists 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 any period, then cash dividends cannot be paid on the Common Stock with respect to such period.

Preferred Stock

Prudential Financial adopted a shareholder rights plan (the "rights plan") under which each outstanding share of Common Stock was coupled with a shareholder right. The rights plan was not applicable to any 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 rights plan. There was no preferred stock outstanding at December 31, 2011 and 2010. The rights plan expired on December 18, 2011.

Comprehensive Income

The components of comprehensive income (loss) for the years ended December 31, are as follows:

	2011	2010	2009
		(in millions)	
Net income (loss)	$3,738	$3,206	$ 3,090
Other comprehensive income (loss), net of taxes:			
Change in foreign currency translation adjustments	233	486	292
Change in net unrealized investments gains (losses)(1)	2,490	2,634	7,905
Change in pension and postretirement unrecognized net periodic benefit (cost)	(182)	316	(645)
Other comprehensive income (loss), net of tax expense (benefit) of $1,312, $1,597, $3,707	2,541	3,436	7,552
Comprehensive income (loss)	6,279	6,642	10,642
Comprehensive (income) loss attributable to noncontrolling interests	(28)	(26)	41
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$6,251	$6,616	$10,683

(1) Includes cash flow hedges. See Note 21 for information on cash flow hedges. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

The balance of and changes in each component of "Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc." for the years ended December 31, are as follows (net of taxes):

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
		(in millions)		
Balance, December 31, 2008	$ 375	$(6,735)	$ (983)	$(7,343)
Change in component during year	299	7,905	(645)	7,559
Impact of adoption of guidance for other-than-temporary impairments of debt securities(2)	0	(659)	0	(659)
Balance, December 31, 2009	674	511	(1,628)	(443)
Change in component during year	471	2,634	316	3,421
Balance, December 31, 2010	1,145	3,145	(1,312)	2,978
Change in component during year	277	2,490	(182)	2,585
Balance, December 31, 2011	$1,422	$ 5,635	$(1,494)	$ 5,563

(1) Includes cash flow hedges. See Note 21 for information on cash flow hedges. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

(2) See Note 2 for additional information on the adoption of guidance for other-than-temporary impairments of debt securities.

15. EQUITY *(continued)*

Statutory Net Income and Surplus

Prudential Financial's U.S. insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Statutory net income (loss) of Prudential Insurance amounted to $826 million, $1,623 million and $1,101 million for the years ended December 31, 2011, 2010 and 2009, respectively. Statutory capital and surplus of Prudential Insurance amounted to $8,160 million and $8,364 million at December 31, 2011 and 2010, respectively.

All of the Company's international insurance operations also prepare financial statements in accordance with local regulatory requirements. The regulatory authorities in these international jurisdictions generally establish some form of minimum solvency margin requirements. All of the international insurance operations have surplus levels that exceed the local minimum requirements.

16. EARNINGS PER SHARE

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

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

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

Common Stock

A reconciliation of the numerators and denominators of the basic and diluted per share computations for the years ended December 31, is as follows:

	2011			2010			2009		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)								
Basic earnings per share									
Income from continuing operations attributable to the Financial Services Businesses	$3,568			$2,693			$3,396		
Direct equity adjustment	24			36			43		
Less: Income (loss) attributable to noncontrolling interests	72			11			(34)		
Less: Earnings allocated to participating unvested share-based payment awards	47			35			39		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$3,473	480.2	$7.23	$2,683	466.8	$5.75	$3,434	444.6	$7.72
Effect of dilutive securities and compensation programs									
Add: Earnings allocated to participating unvested share-based payment awards—Basic	$ 47			$ 35			$ 39		
Less: Earnings allocated to participating unvested share-based payment awards—Diluted	46			35			39		
Stock options		2.9			3.0			1.6	
Deferred and long-term compensation programs		0.5			0.5			0.6	
Exchangeable Surplus Notes	17	5.1		17	5.1		5	1.4	
Diluted earnings per share									
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$3,491	488.7	$7.14	$2,700	475.4	$5.68	$3,439	448.2	$7.67

16. EARNINGS PER SHARE *(continued)*

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. Undistributed earnings allocated to participating unvested share-based payment awards for the years ended December 31, 2011, 2010 and 2009 was based on 6.5 million, 6.1 million and 5.0 million of such awards, respectively, weighted for the period they were outstanding. The computation of earnings per share of Common Stock excludes the dilutive impact of participating unvested share-based awards based on the application of the two-class method.

For the years ended December 31, 2011, 2010 and 2009, 10.8 million options, 10.5 million options and 13.2 million options, respectively, weighted for the portion of the period they were outstanding, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive. These antidilutive options had a weighted average exercise price of $73.01 per share, $71.67 per share and $64.80 per share for the years ended December 31, 2011, 2010 and 2009, respectively.

In September 2009, the Company issued $500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The exchange rate used in the diluted earnings per share calculation for the surplus notes is 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, is added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive. See Note 14 for additional information regarding the exchangeable surplus notes.

Class B Stock

Income (loss) from continuing operations per share of Class B Stock for the years ended December 31, are presented below. There are no potentially dilutive shares associated with the Class B Stock.

	2011			2010			2009		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)								
Basic earnings per share									
Income (loss) from continuing operations attributable to the Closed Block Business	$135			$480			$(287)		
Less: Direct equity adjustment	24			36			43		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$111	2.0	$55.50	$444	2.0	$222.00	$(330)	2.0	$(165.00)

17. SHARE-BASED PAYMENTS

Omnibus Incentive Plan

In March 2003, the Company's Board of Directors adopted the Prudential Financial, Inc. Omnibus Incentive Plan (as subsequently amended and restated, the "Omnibus Plan"). Upon adoption of the Omnibus Plan, the Prudential Financial, Inc. Stock Option Plan previously adopted by the Company on January 9, 2001 (the "Option Plan") was merged into the Omnibus Plan. The nature of stock based awards provided under the Omnibus Plan are stock options, stock appreciation rights, restricted stock shares, restricted stock units, stock settled performance shares, and cash settled performance units. Dividend equivalents are generally provided on restricted stock shares and restricted stock units outstanding as of the record date. Dividend equivalents are generally accrued on target performance shares and units outstanding as of the record date. These dividend equivalents are paid only on the shares and units released up to a maximum of the target number of shares and units awarded. Generally, the requisite service period is the vesting period.

As of December 31, 2011, 22,119,775 authorized shares remain available for grant under the Omnibus Plan including previously authorized but unissued shares under the Option Plan.

Compensation Costs

Compensation cost for employee stock options is based on the fair values estimated on the grant date, while compensation cost for non-employee stock options is re-estimated at each period-end through the vesting date, using the approach and assumptions described below. Compensation cost for restricted stock units and performance shares and units granted to employees is measured by the share price of the underlying Common Stock at the date of grant. Compensation cost for restricted stock shares and restricted stock units granted to non-employees is measured by the share price as of the balance sheet date for unvested shares and the share price at the vesting date for vested shares.

17. SHARE-BASED PAYMENTS *(continued)*

The fair value of each stock option award is estimated using a binomial option-pricing model on the date of grant for stock options issued to employees and the balance sheet date or vesting date for stock options issued to non-employees. The weighted average grant date assumptions used in the binomial option valuation model are as follows:

	2011	2010	2009
Expected volatility	39.86%	44.41%	48.96%
Expected dividend yield	2.00%	1.10%	1.10%
Expected term	5.28 years	5.10 years	4.85 years
Risk-free interest rate	2.48%	2.34%	1.76%

Expected volatilities are based on historical volatility of the Company's Common Stock and implied volatilities from traded options on the Company's Common Stock. The Company uses historical data and expectations of future exercise patterns to estimate option exercises and employee terminations within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following chart summarizes the compensation cost recognized and the related income tax benefit for stock options, restricted stock shares, restricted stock units, performance shares and performance units for the years ended December 31:

	2011		2010		2009	
	Total Compensation Cost Recognized	Income Tax Benefit	Total Compensation Cost Recognized	Income Tax Benefit	Total Compensation Cost Recognized	Income Tax Benefit
			(in millions)			
Employee stock options	$ 44	$16	$ 39	$14	$ 40	$14
Non-employee stock options	0	0	0	0	1	1
Employee restricted stock shares, and restricted stock units	83	30	80	29	83	30
Employee performance shares and units.	14	5	15	6	29	10
Non-employee restricted stock shares and restricted stock units	1	0	1	0	0	0
Total	$142	$51	$135	$49	$153	$55

Compensation costs for all stock based compensation plans capitalized in deferred acquisition costs for the years ended December 31, 2011, 2010 and 2009 were de minimis.

Stock Options

Each stock option granted has an exercise price no less than the fair market value of the Company's Common Stock on the date of grant and has a maximum term of 10 years. Generally, one third of the option grant vests in each of the first three years. Participants are employees and non-employees (i.e., statutory agents who perform services for the Company and participating subsidiaries).

A summary of the status of the Company's employee and non-employee stock option grants is as follows:

	Employee Stock Options		Non-employee Stock Options	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2008	16,879,169	$57.87	454,859	$52.76
Granted	3,370,226	25.48	0	0
Exercised	(636,869)	31.70	(11,580)	27.77
Forfeited	(77,980)	59.81	(5,368)	76.30
Expired	(241,382)	48.60	(10,019)	45.36
Outstanding at December 31, 2009	19,293,164	53.18	427,892	53.31
Granted	1,991,469	48.55	0	0
Exercised	(1,435,898)	33.24	(29,532)	30.27
Forfeited	(96,872)	41.39	(1,404)	75.36
Expired	(214,573)	60.94	(7,920)	40.06
Outstanding at December 31, 2010	19,537,290	54.15	389,036	55.25
Granted	2,252,768	63.91	0	0
Exercised	(1,999,391)	33.65	(100,635)	30.38
Forfeited	(98,286)	48.86	(969)	71.07
Expired	(357,059)	65.81	(16,444)	54.13
Outstanding at December 31, 2011	19,335,322	$57.22	270,988	$64.50
Vested and expected to vest at December 31, 2011	19,130,778	$57.18	270,988	$64.50
Exercisable at December 31, 2011	14,599,465	$59.15	270,988	$64.50

17. SHARE-BASED PAYMENTS *(continued)*

The weighted average grant date fair value of employee stock options granted during the years ended December 31, 2011, 2010 and 2009 was $20.21, $18.00, and $9.83, respectively.

The total intrinsic value (i.e., market price of the stock less the option exercise price) of employee stock options exercised during the years ended December 31, 2011, 2010 and 2009 was $49 million, $35 million, and $11 million, respectively.

The total intrinsic value of non-employee options exercised during the years ended December 31, 2011, 2010 and 2009 was $3 million, $1 million, and $0 million, respectively.

The weighted average remaining contractual term and the aggregate intrinsic value of stock options outstanding and exercisable as of December 31, 2011 is as follows:

	December 31, 2011			
	Employee Stock Options		Non-employee Stock Options	
	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in years)	(in millions)	(in years)	(in millions)
Outstanding	5.01	$109	3.92	$1
Vested and expected to vest	4.96	$109	3.92	$1
Exercisable	4.03	$ 80	3.92	$1

Restricted Stock Shares, Restricted Stock Units, Performance Share Awards, and Performance Unit Awards

A restricted stock share represents a grant of Common Stock to employee and non-employee participants that is subject to certain transfer restrictions and forfeiture provisions for a specified period of time. A restricted stock unit is an unfunded, unsecured right to receive a share of Common Stock at the end of a specified period of time, which is also subject to forfeiture and transfer restrictions. Generally, the restrictions on restricted stock shares and restricted stock units will lapse on the third anniversary of the date of grant. Restricted stock shares subject to the transfer restrictions and forfeiture provisions are considered nonvested shares and are not reflected as outstanding shares until the restrictions expire. Performance shares and performance units are awards denominated in Common Stock. The number of units is determined over the performance period, and may be adjusted based on the satisfaction of certain performance goals. Performance share awards are payable in Common Stock. Performance unit awards are payable in cash.

A summary of the Company's employee restricted stock shares, restricted stock units and performance shares and performance unit awards is as follows:

	Restricted Stock Shares	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Share and Performance Unit Awards(1)	Weighted Average Grant Date Fair Value
Restricted at December 31, 2008	4,690	$44.33	2,864,742	$76.87	862,519	$78.28
Granted	0	0	3,655,941	25.61	0	0
Forfeited	0	0	(118,236)	46.20	0	0
Performance adjustment(2)					(55,953)	76.15
Released	(4,690)	44.33	(1,208,434)	76.00	(234,814)	76.15
Restricted at December 31, 2009	0	0	5,194,013	41.69	571,752	79.36
Granted	0	0	1,801,337	48.56	316,988	58.71
Forfeited	0	0	(128,870)	37.10	(3,062)	58.71
Performance adjustment(2)					62,571	91.73
Released	0	0	(799,202)	85.70	(325,051)	91.73
Restricted at December 31, 2010	0	0	6,067,278	38.03	623,198	63.74
Granted(3)	0	0	1,599,673	63.39	301,204	50.12
Forfeited	0	0	(334,754)	49.40	(18,118)	60.87
Performance adjustment(2)					(219,808)	68.84
Released	0	0	(1,090,419)	58.35	(93,100)	68.04
Restricted at December 31, 2011(3)	0	$ 0	6,241,778	$40.37	593,376	$50.12

(1) Performance share and performance unit awards reflect the target awarded, reduced for cancellations and releases to date. The actual number of units to be awarded at the end of each performance period will range between 0% and 150% of the target for awards granted in 2010 and 2011, based upon a measure of the reported performance for the Company's Financial Services Businesses relative to stated goals. There were no performance shares granted in 2009.

(2) Represents the change in shares issued based upon the attainment of performance goals for the Company's Financial Services Businesses.

(3) For performance share and performance unit awards issued after 1/1/2010, the grant date is the same as the date the grant vests. The features of the grant are such that a mutual understanding of the key terms and conditions of the award between the employee and employer have not been reached until the grant is vested. Consequently, the weighted average grant date fair value as of 12/31/2011 is the value as of the Balance Sheet date.

17. SHARE-BASED PAYMENTS *(continued)*

The fair market value of employee restricted stock, restricted units and performance share and unit awards released for the years ended December 31, 2011, 2010 and 2009 was $75 million, $56 million and $34 million, respectively.

A summary of the Company's non-employee restricted stock units is as follows:

	Restricted Stock Units	Weighted Average Balance Sheet Date Fair Value
Restricted at December 31, 2008	95,338	$30.26
Granted	33,902	
Forfeited	(4,312)	
Released	(77,768)	
Restricted at December 31, 2009	47,160	49.76
Granted	30,711	
Forfeited	(2,351)	
Released	(6,729)	
Restricted at December 31, 2010	68,791	58.71
Granted	20,020	
Forfeited	(5,568)	
Released	(6,859)	
Restricted at December 31, 2011	76,384	$50.12

The fair market value of non-employee share awards released for the years ended December 31, 2011, 2010 and 2009 was $0 million, $0 million and $2 million, respectively.

The number of employee and non-employee restricted stock shares, restricted stock units, performance shares and performance units expected to vest at December 31, 2011 is 6,424,898.

Unrecognized Compensation Cost

Unrecognized compensation cost for employee stock options as of December 31, 2011 was $21 million with a weighted average recognition period of 1.64 years. Unrecognized compensation cost for employee restricted stock awards, restricted stock units, performance shares and performance units as of December 31, 2011 was $73 million with a weighted average recognition period of 1.78 years.

Unrecognized compensation cost for non-employee stock options as of December 31, 2011 is zero as the options are fully expensed. Unrecognized compensation cost for non-employee restricted stock units as of December 31, 2011 was $1 million with a weighted average recognition period of 1.57 years.

Tax Benefits Realized

The tax benefit realized for exercises of employee and non-employee stock options during the years ended December 31, 2011, 2010 and 2009 was $18 million, $14 million and $2 million, respectively.

The tax benefit realized upon vesting of restricted stock shares, restricted stock units, and performance shares for the years ended December 31, 2011, 2010 and 2009 was $26 million, $18 million and $12 million, respectively.

Stock Purchase Plan

At the Annual Meeting of the Shareholders of the Company held on June 7, 2005, the shareholders approved the Prudential Financial, Inc. Employee Stock Purchase Plan. The plan is a qualified Employee Stock Purchase Plan under Section 423 of the Code. Under the plan, eligible participants may purchase shares based upon quarterly offering periods at an amount equal to the lesser of (1) 85% of the closing market price of the Common Stock on the first day of the quarterly offering period, or (2) 85% of the closing market price of the Common Stock on the last day of the quarterly offering period. Participant contributions will be limited to the lower of 10% of eligible earnings or $25,000. Participants are employees and non-employees (i.e., statutory agents who perform services for the Company and participating subsidiaries).

Compensation cost for employees is recognized for each three-month period and is based on the grant date fair value of the discount received under the Employee Stock Purchase Plan. This fair value is estimated using the 15% discount off of the grant date share price, plus the value of three month call and put options on shares at the grant date share price, less the value of forgone interest. Compensation costs recognized for employees under the Company's Employee Stock Purchase Plan for the years ended December 31, 2011, 2010 and 2009 was $12 million, $12 million and $17 million, respectively. The weighted average grant date fair value for employee shares recognized in compensation cost for the years ended December 31, 2011, 2010 and 2009 was $12.87, $13.06, and $10.05, respectively.

17. SHARE-BASED PAYMENTS *(continued)*

Compensation cost for non-employees is recognized for each three-month period and is based on the fair value of shares at the purchase date less the price the participant pays for the shares. Compensation costs recognized for non-employees under the Company's Employee Stock Purchase Plan for the years ended December 31, 2011, 2010 and 2009 was $1 million, $1 million and $2 million, respectively. The weighted average fair value for non-employee shares recognized in compensation cost for the years ended December 31, 2011, 2010 and 2009 was $8.44, $10.88 and $13.92 respectively.

Tax benefits are only recorded in the event of a disqualifying disposition. For the years ended December 31, 2011, 2010 and 2009, tax benefits realized upon disqualifying dispositions for both employees and non-employees were de minimis.

During the year ended December 31, 2011, 1,117,395 shares were purchased under the plan, including those shares purchased in January 2011 related to the October 1 to December 31, 2010 offering period. During the year ended December 31, 2010, 1,092,676 shares were purchased under the plan, including those shares purchased in January 2010 related to the October 1 to December 31, 2009 offering period. During the year ended December 31, 2009, 2,103,950 shares were purchased under the plan, including those shares purchased in January 2009 related to October 1 to December 31 2008 offering period. As of December 31, 2011, 20,803,744 authorized shares remain available for future issuance under the plan.

Settlement of Awards

The Company's policy is to issue shares from Common Stock held in treasury upon exercise of employee and non-employee stock options, the release of restricted stock shares, restricted stock units, and performance shares, as well as for purchases under the stock purchase plan. Performance units will be settled in cash in the future.

As of December 31, 2011, the Company has not settled any equity instruments granted under share-based payment arrangements in cash.

18. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

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

18. EMPLOYEE BENEFIT PLANS *(continued)*

Prepaid benefits costs and accrued benefit liabilities are included in "Other assets" and "Other liabilities," respectively, in the Company's Consolidated Statements of Financial Position. The status of these plans as of December 31, 2011 and 2010, is summarized below:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(in millions)			
Change in benefit obligation				
Benefit obligation at the beginning of period	$ (9,198)	$ (8,855)	$(2,129)	$(2,131)
Acquisition/Divestiture	(800)	20	3	0
Service cost	(218)	(178)	(11)	(11)
Interest cost	(486)	(469)	(110)	(113)
Acquisition/Divestiture	0	0	(26)	(23)
Medicare Part D subsidy receipts	0	0	(11)	(20)
Early retirement reinsurance program receipts.	0	0	(14)	0
Amendments	72	0	0	0
Actuarial gains/(losses), net	(1,047)	(225)	(184)	(42)
Settlements	30	0	0	0
Curtailments	22	16	0	0
Special termination benefits	(4)	(2)	0	0
Benefits paid	612	547	210	214
Foreign currency changes and other	(96)	(52)	(5)	(3)
Benefit obligation at end of period	$(11,113)	$ (9,198)	$(2,277)	$(2,129)
Change in plan assets				
Fair value of plan assets at beginning of period	$ 10,533	$ 9,591	$ 1,495	$ 1,519
Actual return on plan assets	1,616	1,368	5	152
Employer contributions	255	128	14	15
Plan participants' contributions	0	0	26	23
Early retirement reinsurance program receipts.	0	0	14	0
Disbursement for settlements	(30)	0	0	0
Benefits paid	(612)	(547)	(210)	(214)
Acquisition/Divestiture	53	(3)	0	0
Foreign currency changes and other	(3)	(4)	0	0
Fair value of plan assets at end of period	$ 11,812	$10,533	$ 1,344	$ 1,495
Funded status at end of period	$ 699	$ 1,335	$ (933)	$ (634)
Amounts recognized in the Statements of Financial Position				
Prepaid benefit cost	$ 3,389	$ 3,219	$ 0	$ 0
Accrued benefit liability	(2,690)	(1,884)	(933)	(634)
Net amount recognized	$ 699	$ 1,335	$ (933)	$ (634)
Items recorded in "Accumulated other comprehensive income (loss)" not yet recognized as a component of net periodic (benefit) cost:				
Transition obligation	$ 0	$ 0	$ 1	$ 1
Prior service cost	(9)	87	(42)	(54)
Net actuarial loss	1,549	1,445	861	622
Net amount not recognized	$ 1,540	$ 1,532	$ 820	$ 569
Accumulated benefit obligation	$(10,616)	$ (8,769)	$(2,277)	$(2,129)

18. EMPLOYEE BENEFIT PLANS *(continued)*

In addition to the plan assets above, the Company in 2007 established an irrevocable trust, commonly referred to as a "rabbi trust," for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans ($834 million and $860 million benefit obligation at December 31, 2011 and 2010, respectively). Assets held in the rabbi trust are available to the general creditors of the Company in the event of insolvency or bankruptcy. The Company may from time to time in its discretion make contributions to the trust to fund accrued benefits payable to participants in one or more of the plans, and, in the case of a change in control of the Company, as defined in the trust agreement, the Company will be required to make contributions to the trust to fund the accrued benefits, vested and unvested, payable on a pretax basis to participants in the plans. The Company made a discretionary payment of $95 million to the trust in 2010. As of December 31, 2011 and 2010, the assets in the trust had a carrying value of $404 million and $390 million, respectively.

The Company also maintains a separate rabbi trust established at the time of the combination of its retail securities brokerage and clearing operations with those of Wachovia for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans ($78 million and $74 million benefit obligation at December 31, 2011 and 2010, respectively), as well as certain cash-based deferred compensation arrangements. As of December 31, 2011 and 2010, the assets in the trust had a carrying value of $134 million and $124 million, respectively.

Pension benefits for foreign plans comprised 19% and 13% of the ending benefit obligation for 2011 and 2010, respectively. Foreign pension plans comprised 3% and 2% of the ending fair value of plan assets for 2011 and 2010. There are no material foreign postretirement plans.

Information for pension plans with a projected benefit obligation in excess of plan assets

	2011	2010
	(in millions)	
Projected benefit obligation	$2,785	$2,096
Fair value of plan assets	95	212

Information for pension plans with an accumulated benefit obligation in excess of plan assets

	2011	2010
	(in millions)	
Accumulated benefit obligation	$2,582	$1,951
Fair value of plan assets	77	196

There were no purchases of annuity contracts in 2011 and 2010 from Prudential Insurance. The approximate future annual benefit payment payable by Prudential Insurance for all annuity contracts was $18 million and $20 million as of December 31, 2011 and 2010, respectively.

There were pension plan amendments in 2011. The benefit obligation for pension benefits decreased by $72 million for changes in benefit structures for certain Japanese plans. There were no pension plan amendments in 2010. There were no postretirement plan amendments in 2011 and 2010.

Components of Net Periodic Benefit Cost

Net periodic (benefit) cost included in "General and administrative expenses" in the Company's Consolidated Statements of Operations for the years ended December 31, includes the following components:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
	(in millions)					
Service cost	$ 218	$ 178	$ 163	$ 11	$ 11	$ 10
Interest cost	486	469	462	110	113	116
Expected return on plan assets	(719)	(744)	(728)	(98)	(107)	(106)
Amortization of transition obligation	0	0	0	1	1	1
Amortization of prior service cost	23	24	26	(12)	(12)	(11)
Amortization of actuarial (gain) loss, net	40	41	31	36	39	41
Settlements	5	0	0	0	0	0
Curtailments	(18)	(6)	0	0	0	0
Special termination benefits	4	2	2	0	0	0
Net periodic (benefit) cost(1)	$ 39	$ (36)	$ (44)	$ 48	$ 45	$ 51

18. EMPLOYEE BENEFIT PLANS *(continued)*

(1) Includes net periodic (benefit) cost for pensions of ($18) million, ($4) million and $5 million for 2011, 2010 and 2009, respectively, that have been classified as discontinued operations.

Certain employees were provided special termination benefits under non-qualified plans in the form of unreduced early retirement benefits as a result of their involuntary termination.

Changes in Accumulated Other Comprehensive Income

The amounts recorded in "Accumulated other comprehensive income (loss)" as of the end of the period, which have not yet been recognized as a component of net periodic (benefit) cost, and the related changes in these items during the period that are recognized in "Other Comprehensive Income" are as follows:

	Pension Benefits			Other Postretirement Benefits		
	Transition Obligation	Prior Service Cost	Net Actuarial (Gain) Loss	Transition Obligation	Prior Service Cost	Net Actuarial (Gain) Loss
	(in millions)					
Balance, December 31, 2009	$0	$109	$1,881	$ 1	$(65)	$663
Amortization for the period	0	(24)	(41)	(1)	12	(39)
Deferrals for the period	0	0	(399)	0	0	(3)
Impact of foreign currency changes and other	0	2	4	1	(1)	1
Balance, December 31, 2010	0	87	1,445	1	(54)	622
Amortization for the period	0	(23)	(40)	1	12	(36)
Deferrals for the period	0	(72)	150	0	0	277
Impact of foreign currency changes and other	0	(1)	(6)	(1)	0	(2)
Balance, December 31, 2011	$0	$ (9)	$1,549	$ 1	$(42)	$861

The amounts included in "Accumulated other comprehensive income (loss)" expected to be recognized as components of net periodic (benefit) cost in 2012 are as follows:

	Pension Benefits	Other Postretirement Benefits
	(in millions)	
Amortization of transition obligation	$ 0	$ 0
Amortization of prior service cost	13	(12)
Amortization of actuarial (gain) loss, net	108	54
Total	$121	$ 42

The Company's assumptions related to the calculation of the domestic benefit obligation (end of period) and the determination of net periodic (benefit) cost (beginning of period) are presented in the table below:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Weighted-average assumptions						
Discount rate (beginning of period)	5.60%	5.75%	6.00%	5.35%	5.50%	6.00%
Discount rate (end of period)	4.85%	5.60%	5.75%	4.60%	5.35%	5.50%
Rate of increase in compensation levels (beginning of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Rate of increase in compensation levels (end of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Expected return on plan assets (beginning of period)	7.00%	7.50%	7.50%	7.00%	7.50%	8.00%
Health care cost trend rates (beginning of period)	N/A	N/A	N/A	5.00-7.50%	5.00-7.50%	5.00-8.00%
Health care cost trend rates (end of period)	N/A	N/A	N/A	5.00-7.50%	5.00-7.50%	5.00-7.50%
For 2011, 2010 and 2009, the ultimate health care cost trend rate after gradual decrease until: 2017, 2015, 2014 (beginning of period)	N/A	N/A	N/A	5.00%	5.00%	5.00%
For 2011, 2010 and 2009, the ultimate health care cost trend rate after gradual decrease until: 2017, 2017, 2015, (end of period)	N/A	N/A	N/A	5.00%	5.00%	5.00%

The domestic discount rate used to value the pension and postretirement obligations at December 31, 2011 and December 31, 2010 is based upon the value of a portfolio of Aa investments whose cash flows would be available to pay the benefit obligation's cash flows when due. The portfolio is selected from a compilation of approximately 550 Aa-rated bonds across the full range of maturities. Since yields can vary widely at each maturity point, the Company generally avoids using the highest and lowest yielding bonds at the maturity points, so as to avoid relying on bonds that might be mispriced or misrated. This refinement process generally results in having a distribution from the 10th to 90th percentile. The Aa portfolio is then selected and, accordingly, its value is a measure of the benefit obligation at December 31,

18. EMPLOYEE BENEFIT PLANS *(continued)*

2011 and December 31, 2010. A single equivalent discount rate is calculated to equate the value of the Aa portfolio to the cash flows for the benefit obligation. The result is rounded to the nearest 5 basis points and the benefit obligation is recalculated using the rounded discount rate.

The pension and postretirement expected long-term rates of return on plan assets for 2011 were determined based upon an approach that considered an expectation of the allocation of plan assets during the measurement period of 2011. Expected returns are estimated by asset class as noted in the discussion of investment policies and strategies below. Expected returns on asset classes are developed using a building-block approach that is forward looking and are not strictly based upon historical returns. The building blocks for equity returns include inflation, real return, a term premium, an equity risk premium, capital appreciation, effect of active management, expenses and the effect of rebalancing. The building blocks for fixed maturity returns include inflation, real return, a term premium, credit spread, capital appreciation, effect of active management, expenses and the effect of rebalancing.

The Company applied the same approach to the determination of the expected long-term rate of return on plan assets in 2012. The expected long-term rate of return for 2012 is 6.75% and 7.00% for pension and postretirement, respectively.

The Company, with respect to its domestic qualified pension benefits, uses market related value to determine the components of net periodic (benefit) cost. Market related value is a measure of asset value that reflects the difference between actual and expected return on assets over a five-year period.

The assumptions for foreign pension plans are based on local markets. There are no material foreign postretirement plans.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point increase and decrease in assumed health care cost trend rates would have the following effects:

	Other Postretirement Benefits
	(in millions)
One percentage point increase	
Increase in total service and interest costs	$ 10
Increase in postretirement benefit obligation	199
One percentage point decrease	
Decrease in total service and interest costs	$ 7
Decrease in postretirement benefit obligation	139

Plan Assets

The investment goal of the domestic pension plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds and other investments, while meeting the cash requirements for a pension obligation that includes a traditional formula principally representing payments to annuitants and a cash balance formula that allows lump sum payments and annuity payments. The pension plan risk management practices include guidelines for asset concentration, credit rating and liquidity. The pension plan does not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration, while interest rate swaps are used to adjust duration.

The investment goal of the domestic postretirement plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds, and other investments, while meeting the cash requirements for the postretirement obligation that includes a medical benefit including prescription drugs, a dental benefit, and a life benefit. The postretirement plans risk management practices include guidelines for asset concentration, credit rating, liquidity, and tax efficiency. The postretirement plan does not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration, while interest rate swaps are used to adjust duration.

The plan fiduciaries for the Company's pension and postretirement plans have developed guidelines for asset allocations reflecting a percentage of total assets by asset class, which are reviewed on an annual basis. Asset allocation targets as of December 31, 2011 are as follows:

	Pension		Postretirement	
	Minimum	Maximum	Minimum	Maximum
Asset Category				
U.S. Equities	3%	14%	39%	51%
International Equities	2%	14%	1%	8%
Fixed Maturities	58%	74%	0%	51%
Short-term Investments	0%	13%	0%	55%
Real Estate	1%	8%	0%	0%
Other	0%	12%	0%	0%

18. EMPLOYEE BENEFIT PLANS *(continued)*

To implement the investment strategy, plan assets are invested in funds that primarily invest in securities that correspond to one of the asset categories under the investment guidelines. However, at any point in time, some of the assets in a fund may be of a different nature than the specified asset category.

Assets held with Prudential Insurance are in either pooled separate accounts or single client separate accounts. Pooled separate accounts hold assets for multiple investors. Each investor owns a "unit of account." Single client separate accounts hold assets for only one investor, the domestic qualified pension plan and each security in the fund is treated as individually owned. Assets held with a bank are either in common/collective trusts or single client trusts. Common or collective trusts hold assets for more than one investor. Each investor owns a "unit of account." Single client trusts hold assets for only one investor, the domestic qualified pension plan and each security in the fund is treated as individually owned.

There were no investments in Prudential Financial Common Stock as of December 31, 2011 and December 31, 2010 for either the pension or postretirement plans. Pension plan assets of $8,262 million and $6,944 million are included in the Company's separate account assets and liabilities as of December 31, 2011 and December 31, 2010, respectively.

The authoritative guidance around fair value established a framework for measuring fair value. Fair value is disclosed using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as described in Note 20.

The following describes the valuation methodologies used for pension and postretirement plans assets measured at fair value.

Insurance Company Pooled Separate Accounts, Common or Collective Trusts, and United Kingdom Insurance Pooled Funds—Insurance company pooled separate accounts are invested via group annuity contracts issued by Prudential Insurance. Assets are represented by a "unit of account." The redemption value of those units is based on a per unit value whose value is the result of the accumulated values of underlying investments. The underlying investments are valued in accordance with the corresponding valuation method for the investments held.

Equities—See Note 20 for a discussion of the valuation methodologies for equity securities.

U.S. Government Securities (both Federal and State & Other), Non–U.S. Government Securities, *and Corporate Debt*—See Note 20 for a discussion of the valuation methodologies for fixed maturity securities.

Interest Rate Swaps—See Note 20 for a discussion of the valuation methodologies for derivative instruments.

Guaranteed Investment Contract—The value is based on contract cash flows and available market rates for similar investments.

Registered Investment Companies (Mutual Funds)—Securities are priced at the net asset value ("NAV") of shares.

Unrealized Gain (Loss) on Investment of Securities Lending Collateral—This value is the contractual position relative to the investment of securities lending collateral.

Real Estate—The values are determined through an independent appraisal process. The estimate of fair value is based on three approaches; (1) current cost of reproducing the property less deterioration and functional/economic obsolescence; (2) discounting a series of income streams and reversion at a specific yield or by directly capitalizing a single year income estimate by an appropriate factor; and (3) value indicated by recent sales of comparable properties in the market. Each approach requires the exercise of subjective judgment.

Short-term Investments—Securities are valued initially at cost and thereafter adjusted for amortization of any discount or premium (i.e., amortized cost). Amortized Cost approximates fair value.

Partnerships—The value of interests owned in partnerships is based on valuations of the underlying investments that include private placements, structured debt, real estate, equities, fixed maturities, commodities and other investments.

Structured Debt (Gateway Recovery Trust)—The value is based primarily on unobservable inputs including probability weighted cash flows and reinvestment yield assumptions.

Hedge Funds—The value of interests in hedge funds is based on the underlying investments that include equities, debt and other investments.

Variable Life Insurance Policies—These assets are held in group and individual variable life insurance policies issued by Prudential Insurance. Group policies are invested in Insurance Company Pooled Separate Accounts. Individual policies are invested in Registered Investment Companies (Mutual Funds). The value of interest in these policies is the cash surrender value of the policies based on the underlying investments.

18. EMPLOYEE BENEFIT PLANS *(continued)*

Pension plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Pooled separate accounts(1)	$ 0	$ 900	$ 0	$ 900
Common/collective trusts(1)	0	54	0	54
Subtotal				954
International Equities:				
Pooled separate accounts(2)	0	33	0	33
Common/collective trusts(3)	0	186	0	186
United Kingdom insurance pooled funds(4)	0	68	0	68
Subtotal				287
Fixed Maturities:				
Pooled separate accounts(5)	0	1,006	20	1,026
Common/collective trusts(6)	0	358	0	358
U.S. government securities (federal):				
Mortgage-backed	0	4	0	4
Other U.S. government securities	0	2,031	0	2,031
U.S. government securities (state & other)	0	653	0	653
Non-U.S. government securities	0	25	0	25
United Kingdom insurance pooled funds(7)	0	176	0	176
Corporate Debt:				
Corporate bonds(8)	0	3,712	12	3,724
Asset-backed	0	17	0	17
Collateralized Mortgage Obligations(CMO)(9)	0	639	0	639
Interest rate swaps (Notional amount: $559)	0	(21)	0	(21)
Guaranteed investment contract	0	18	0	18
Other(10)	46	2	62	110
Unrealized gain (loss) on investment of securities lending collateral(11)	0	(141)	0	(141)
Subtotal				8,619
Short-term Investments:				
Pooled separate accounts	0	293	0	293
United Kingdom insurance pooled funds	0	6	0	6
Subtotal				299
Real Estate:				
Pooled separate accounts(12)	0	0	318	318
Partnerships	0	0	105	105
Subtotal				423
Other:				
Structured debt (Gateway Recovery Trust)	0	0	0	0
Partnerships	0	0	552	552
Hedge funds	0	0	678	678
Subtotal				1,230
Total	$46	$10,019	$1,747	$11,812

18. EMPLOYEE BENEFIT PLANS *(continued)*

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Pooled separate accounts(1)	$ 0	$ 922	$ 0	$ 922
Common/collective trusts(1)	0	35	0	35
Other(10)	0	0	0	0
Subtotal				957
International Equities:				
Pooled separate accounts(2)	0	24	0	24
Common/collective trusts(3)	0	191	0	191
United Kingdom insurance pooled funds(4)	0	77	0	77
Subtotal				292
Fixed Maturities:				
Pooled separate accounts(5)	0	996	0	996
Common/collective trusts(6)	0	290	0	290
U.S. government securities (federal):				
Mortgage-backed	0	4	0	4
Other U.S. government securities	0	1,806	0	1,806
U.S. government securities (state & other)	0	533	0	533
Non-U.S. government securities	0	24	0	24
United Kingdom insurance pooled funds(7)	0	104	0	104
Corporate Debt:				
Corporate bonds(8)	0	3,043	10	3,053
Asset-backed	0	20	0	20
Collateralized Mortgage Obligations (CMO)(9)	0	739	0	739
Interest rate swaps (Notional amount: $412)	0	(23)	0	(23)
Guaranteed investment contract	0	17	0	17
Other(10)	101	9	(8)	102
Unrealized gain (loss) on investment of securities lending collateral(13)	0	(123)	0	(123)
Subtotal				7,542
Short-term Investments:				
Pooled separate accounts	0	32	0	32
United Kingdom insurance pooled funds	0	5	0	5
Subtotal				37
Real Estate:				
Pooled separate accounts(12)	0	0	216	216
Partnerships	0	0	42	42
Other	0	0	0	0
Subtotal				258
Other:				
Structured debt (Gateway Recovery Trust)	0	0	658	658
Partnerships	0	0	219	219
Hedge fund	0	0	570	570
Subtotal				1,447
Total	$101	$8,725	$1,707	$10,533

(1) These categories invest in U.S. equity funds whose objective is to track or outperform various indexes.
(2) This category invests in a large cap international equity funds whose objective is to track an index.
(3) This category invests in international equity funds, primarily large cap, whose objective is to outperform various indexes.
(4) This category invests in an international equity fund whose objective is to track an index.
(5) This category invests in bond funds, primarily highly rated private placement securities.
(6) This category invests in bond funds, primarily highly rated public securities whose objective is to outperform an index.
(7) This category invests in bond funds, primarily highly rated corporate securities.
(8) This category invests in highly rated corporate securities.
(9) This category invests in highly rated Collateralized Mortgage Obligations.
(10) Primarily cash and cash equivalents, short term investments, payables and receivables, and open future contract positions (including fixed income collateral).
(11) The contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $1,289 million and the liability for securities lending collateral is $1,430 million.
(12) This category invests in commercial real estate and real estate securities funds, whose objective is to outperform an index
(13) The contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $1,295 million and the liability for securities lending collateral is $1,418 million.

18. EMPLOYEE BENEFIT PLANS *(continued)*

Changes in Fair Value of Level 3 Pension Assets

	Year Ended December 31, 2011			
	Fixed Maturities– Pooled Separate Accounts	Fixed Maturities– Corporate Debt– Corporate Bonds	Fixed Maturities– Other	Real Estate– Pooled Separate Accounts
	(in millions)			
Fair Value, beginning of period	$ 0	$ 10	$ (8)	$216
Actual Return on Assets:				
Relating to assets still held at the reporting date	0	0	0	39
Relating to assets sold during the period	0	0	0	16
Purchases, sales and settlements	20	(1)	70	47
Transfers in and /or out of Level 3	0	3	0	0
Fair Value, end of period	$ 20	$ 12	$ 62	$318

	Year Ended December 31, 2011			
	Real Estate– Partnerships	Other– Structured Debt	Other– Partnerships	Other– Hedge Fund
	(in millions)			
Fair Value, beginning of period	$ 42	$ 658	$ 219	$570
Actual Return on Assets:				
Relating to assets still held at the reporting date	0	0	22	(20)
Relating to assets sold during the period	0	44	11	2
Purchases, sales and settlements	63	(702)	300	126
Transfers in and /or out of Level 3	0	0	0	0
Fair Value, end of period	$105	$ 0	$ 552	$678

	Year Ended December 31, 2010			
	Fixed Maturities– Corporate Debt – Corporate Bonds	Fixed Maturities– Corporate Debt– CMO	Fixed Maturities– Other	Real Estate– Pooled Separate Accounts
	(in millions)			
Fair Value, beginning of period	$ 1	$ 2	$ 120	$187
Actual Return on Assets:				
Relating to assets still held at the reporting date	1	0	0	42
Relating to assets sold during the period	0	0	0	(2)
Purchases, sales and settlements	0	0	(128)	(11)
Transfers in and /or out of Level 3	8	(2)	0	0
Fair Value, end of period	$ 10	$ 0	$ (8)	$216

	Year Ended December 31, 2010			
	Real Estate– Partnerships	Other– Structured Debt	Other– Partnerships	Other– Hedge Fund
	(in millions)			
Fair Value, beginning of period	$ 48	$ 572	$ 280	$218
Actual Return on Assets:				
Relating to assets still held at the reporting date	4	86	17	44
Relating to assets sold during the period	0	0	0	0
Purchases, sales and settlements	(10)	0	30	200
Transfers in and /or out of Level 3	0	0	(108)	108
Fair Value, end of period	$ 42	$ 658	$ 219	$570

18. EMPLOYEE BENEFIT PLANS *(continued)*

Postretirement plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Variable Life Insurance Policies(1)	$ 0	$ 439	$0	$ 439
Common trusts(2)	0	85	0	85
Equities	96	0	0	96
Subtotal				620
International Equities:				
Variable Life Insurance Policies(3)	0	44	0	44
Common trusts(4)	0	15	0	15
Subtotal				59
Fixed Maturities:				
Common trusts(5)	0	27	0	27
U.S. government securities (federal):				
Mortgage-Backed	0	12	0	12
Other U.S. government securities	0	101	0	101
U.S. government securities (state & other)	0	3	0	3
Non-U.S. government securities	0	3	0	3
Corporate Debt:				
Corporate bonds(6)	0	284	2	286
Asset-Backed	0	62	0	62
Collateralized Mortgage Obligations (CMO)(7)	0	144	0	144
Interest rate swaps (Notional amount: $560)	0	(4)	0	(4)
Other(8)	8	0	2	10
Unrealized gain (loss) on investment of securities lending collateral(9)	0	0	0	0
Subtotal				644
Short-term Investments:				
Variable Life Insurance Policies	0	1	0	1
Registered investment companies	20	0	0	20
Subtotal				21
Total	$124	$1,216	$4	$1,344

18. EMPLOYEE BENEFIT PLANS *(continued)*

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Variable Life Insurance Policies:				
Pooled separate accounts(11)	$ 0	$ 449	$0	$ 449
Registered investment companies	0	0	0	0
Common trusts(2)	0	88	0	88
Equities	102	0	0	102
Subtotal				639
International Equities:				
Variable Life Insurance Policies				
Pooled separate accounts(3)	0	51	0	51
Common trusts(4)	0	17	0	17
Subtotal				68
Fixed Maturities:				
Common trusts(5)	0	23	0	23
U.S. government securities (federal):				
Mortgage-Backed	0	13	0	13
Other U.S. government securities	0	157	0	157
U.S. government securities (state & other)	0	2	0	2
Non-U.S. government securities	0	3	0	3
Corporate Debt:				
Corporate bonds(6)	0	281	2	283
Asset-Backed	0	73	0	73
Collateralized Mortgage Obligations (CMO)(7)	0	201	0	201
Interest rate swaps (Notional amount: $322)	0	3	0	3
Other(8)	10	0	4	14
Unrealized gain (loss) on investment of securities lending collateral(10)	0	0	0	0
Subtotal				772
Short-term Investments:				
Variable Life Insurance Policies				
Pooled separate accounts	0	1	0	1
Registered investment companies	15	0	0	15
Subtotal				16
Total	$127	$1,362	$6	$1,495

(1) This category invests in U.S. equity funds, primarily large cap equities whose objective is to track an index via pooled separate accounts and registered investment companies.
(2) This category invests in U.S. equity funds, primarily large cap equities.
(3) This category invests in international equity funds, primarily large cap international equities whose objective is to track an index.
(4) This category fund invests in large cap international equity fund whose objective is to outperform an index.
(5) This category invests in U.S. bonds funds.
(6) This category invests in highly rated corporate bonds.
(7) This category invests in highly rated Collateralized Mortgage Obligations.
(8) Cash and cash equivalents, short term investments, payables and receivables and open future contract positions (including fixed income collateral).
(9) In 2011 the contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $78 million and the liability for securities lending collateral is $78 million.
(10) In 2010 the contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $30 million and the liability for securities lending collateral is $30 million.
(11) This category invests in U.S. equity funds, primarily large cap equities whose objective is to track an index.

18. EMPLOYEE BENEFIT PLANS *(continued)*

Changes in Fair Value of Level 3 Postretirement Assets

	Year Ended December 31, 2011	
	Fixed Maturities–Corporate Debt–Corporate Bonds	Fixed Maturities–Other
	(in millions)	
Fair Value, beginning of period	$2	$ 4
Actual Return on Assets:		
Relating to assets still held at the reporting date	0	0
Relating to assets sold during the period	0	0
Purchases, sales and settlements	0	(2)
Transfers in and /or out of Level 3	0	0
Fair Value, end of period	$2	$ 2

	Year Ended December 31, 2010		
	Fixed Maturities–Corporate Debt–Corporate Bonds	Fixed Maturities–Corporate Debt–CMO	Fixed Maturities–Other
	(in millions)		
Fair Value, beginning of period	$1	$ 2	$12
Actual Return on Assets:			
Relating to assets still held at the reporting date	0	0	0
Relating to assets sold during the period	0	0	0
Purchases, sales and settlements	1	0	(8)
Transfers in and /or out of Level 3	0	(2)	0
Fair Value, end of period	$2	$ 0	$ 4

A summary of pension and postretirement plan asset allocation as of the year ended December 31, are as follows:

	Pension Percentage of Plan Assets		Postretirement Percentage of Plan Assets	
	2011	2010	2011	2010
Asset Category				
U.S. Equities	8%	9%	46%	43%
International Equities	2	3	4	4
Fixed Maturities	73	72	48	52
Short-term Investments	2	0	2	1
Real Estate	4	2	0	0
Other	11	14	0	0
Total	100%	100%	100%	100%

The expected benefit payments for the Company's pension and postretirement plans, as well as the expected Medicare Part D subsidy receipts related to the Company's postretirement plan, for the years indicated are as follows:

	Pension Benefits	Other Postretirement Benefits	Other Postretirement Benefits–Medicare Part D Subsidy Receipts
		(in millions)	
2012	$ 718	$ 195	$ 19
2013	648	196	20
2014	658	195	21
2015	662	193	21
2016	670	192	22
2017-2021	3,494	930	112
Total	$6,850	$1,901	$215

18. EMPLOYEE BENEFIT PLANS *(continued)*

The Company anticipates that it will make cash contributions in 2012 of approximately $480 million to the pension plans and approximately $10 million to the postretirement plans.

Postemployment Benefits

The Company accrues postemployment benefits for income continuance and health and life benefits provided to former or inactive employees who are not retirees. The net accumulated liability for these benefits at December 31, 2011 and 2010 was $34 million and $33 million, respectively, and is included in "Other liabilities."

Other Employee Benefits

The Company sponsors voluntary savings plans for employees (401(k) plans). The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The matching contributions by the Company included in "General and administrative expenses" were $54 million, $52 million and $53 million for the years ended December 31, 2011, 2010 and 2009, respectively.

19. INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, were as follows:

	2011	2010	2009
	(in millions)		
Current tax expense (benefit)			
U.S.	$ 73	$ (728)	$ (52)
State and local	2	12	7
Foreign	372	348	(71)
Total	447	(368)	(116)
Deferred tax expense (benefit)			
U.S.	748	1,289	(619)
State and local	9	41	(7)
Foreign	395	341	680
Total	1,152	1,671	54
Total income tax expense (benefit) on continuing operations before equity in earnings of operating joint ventures	1,599	1,303	(62)
Income tax expense on equity in earnings of operating joint ventures	79	25	807
Income tax expense on discontinued operations	18	48	100
Income tax expense (benefit) reported in equity related to:			
Other comprehensive income	1,312	1,597	3,352
Impact on Company's investment in Wachovia Securities due to addition of A.G. Edwards business	0	0	(59)
Stock-based compensation programs	(19)	1	22
Cumulative effect of changes in accounting principles	0	0	355
Total income taxes	$2,989	$2,974	$4,515

The Company's income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures includes income (loss) from domestic and foreign operations, for the years ended December 31, as follows:

	2011	2010	2009
	(in millions)		
Domestic operations	$1,793	$2,410	$ (218)
Foreign operations	$3,324	$1,982	$1,742

The Company's actual income tax expense on continuing operations before equity in earnings of operating joint ventures for the years ended December 31, differs from the expected amount computed by applying the statutory federal income tax rate of 35% to income from continuing operations before income taxes and equity in earnings of operating joint ventures for the following reasons:

	2011	2010	2009
	(in millions)		
Expected federal income tax expense	$1,791	$1,537	$ 533
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)
Change in tax rate	29	69	0
Valuation allowance	8	29	0
Other	(132)	(75)	(70)
Total income tax expense (benefit) on continuing operations before equity in earnings of operating joint ventures	$1,599	$1,303	$ (62)

19. INCOME TAXES *(continued)*

Total income tax expense includes additional tax expense related to the utilization of deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar Financial Life Insurance Company, Ltd. ("PGFL") and the Star and Edison Businesses. The balance of additional tax expense to be recognized in the future related to the utilization of opening balance sheet deferred tax assets is as follows:

	PGFL	Star and Edison Businesses	Total
		(in millions)	
Opening balance sheet deferred tax assets after valuation allowance that will result in additional tax expense	$ 42	$678	$720
Additional tax expense recognized in the Statement of Operations:			
2009	6	0	6
2010	6	0	6
2011	(28)	283	255
Subtotal	(16)	283	267
Additional tax expense (benefit) recognized in Other Comprehensive Income	17	(47)	(30)
Additional tax expense to be recognized in future periods	$ 41	$442	$483

Deferred tax assets and liabilities at December 31, resulted from the items listed in the following table:

	2011	2010
	(in millions)	
Deferred tax assets		
Insurance reserves	$ 1,883	$ 624
Policyholders' dividends	1,817	938
Net operating and capital loss carryforwards	1,108	719
Employee benefits	582	321
Other	871	239
Deferred tax assets before valuation allowance	6,261	2,841
Valuation allowance	(393)	(386)
Deferred tax assets after valuation allowance	5,868	2,455
Deferred tax liabilities		
Net unrealized investment gains	4,794	2,807
Deferred policy acquisition costs	4,378	4,474
Investments	2,155	337
Unremitted foreign earnings	1,368	579
Value of business acquired	1,225	308
Deferred tax liabilities	13,920	8,505
Net deferred tax liability	$ (8,052)	$(6,050)

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected 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 the Company considers 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 the Company 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.

A valuation allowance has been recorded related to tax benefits associated with state and local and foreign deferred tax assets. Adjustments to the valuation allowance are made to reflect changes in management's assessment of the amount of the deferred tax asset that is realizable. The valuation allowance includes amounts recorded in connection with deferred tax assets at December 31, as follows:

	2011	2010
	(in millions)	
Valuation allowance related to state and local deferred tax assets	$357	$297
Valuation allowance related to foreign operations deferred tax assets	$ 36	$ 89

19. INCOME TAXES *(continued)*

The following table sets forth the federal, state and foreign operating and capital loss carryforwards for tax purposes, at December 31:

	2011	2010
	(in millions)	
Federal net operating and capital loss carryforwards(1)	$1,112	$ 812
State net operating and capital loss carryforwards(2)	$6,106	$5,330
Foreign operating loss carryforwards(3)	$1,241	$ 405

(1) Expires between 2020 and 2031.
(2) Expires between 2012 and 2031.
(3) $1,208 million expires between 2014 and 2020 and $33 million has an unlimited carryforward.

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. In 2009, the Company sold its investment in its Mexican subsidiaries Prudential Financial Operadora de Sociedades de Inversion S.A. de C.V., Prudential Bank, S.A. Institucion de Banca, and Prudential Consultoria, S. De R.L. de C.V. Consequently, their earnings were no longer considered permanently reinvested and the Company recognized an income tax expense of $6 million related to the sale in "Income from discontinued operations, net of taxes." In addition, in 2009, the Company determined, due to the then pending sale, that the earnings from certain of its Korean investment management subsidiaries would be repatriated to the U.S. Accordingly, earnings from those Korean investment management subsidiaries were not considered permanently reinvested and the Company recognized an income tax expense of $66 million associated with the expected repatriation of those earnings in "Income from discontinued operations, net of taxes." During 2010, the Company made no material changes with respect to its repatriation assumptions. In 2011 the Company sold various foreign entities that were a part of the global commodities group and the relocation business. Consequently, their earnings were no longer considered permanently reinvested and the Company recognized an income tax expense of $6 million related to the sale of global commodities group in "Income from discontinued operations, net of taxes" and income tax benefit of $11 million related to the sale of the relocation business.

The following table sets forth the undistributed earnings of foreign subsidiaries, where the Company assumes permanent reinvestment, for which U.S. deferred taxes have not been provided, as of the periods indicated. Determining the tax liability that would arise if these earnings were remitted is not practicable.

	At December 31,		
	2011	2010	2009
	(in millions)		
Undistributed earnings of foreign subsidiaries (assuming permanent reinvestment)	$2,145	$2,050	$1,710

The Company's unrecognized tax benefits for the periods indicated are as follows:

	Unrecognized tax benefits prior to 2002	Unrecognized tax benefits 2002 and forward	Total unrecognized tax benefits all years
		(in millions)	
Amounts as of December 31, 2008	$ 387	$ 288	$ 675
Increases in unrecognized tax benefits taken in prior period	0	31	31
(Decreases) in unrecognized tax benefits taken in prior period	(21)	(26)	(47)
Settlements with taxing authorities	0	65	65
(Decreases) in unrecognized tax benefits as a result of lapse of the applicable statute of limitations	(214)	0	(214)
Amounts as of December 31, 2009	152	358	510
Increases in unrecognized tax benefits taken in prior period	0	44	44
(Decreases) in unrecognized tax benefits taken in prior period	0	(2)	(2)
Settlements with taxing authorities	0	0	0
Amounts as of December 31, 2010	152	400	552
Increases in unrecognized tax benefits taken in prior period	0	96	96
(Decreases) in unrecognized tax benefits taken in prior period	(152)	0	(152)
Settlements with taxing authorities	0	(406)	(406)
Amounts as of December 31, 2011	$ 0	$ 90	$ 90
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate as of December 31, 2009	$ 152	$ 109	$ 261
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate as of December 31, 2010	$ 152	$ 109	$ 261
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate as of December 31, 2011	$ 0	$ 38	$ 38

19. INCOME TAXES *(continued)*

The Company classifies all interest and penalties related to tax uncertainties as income tax expense (benefit). The amounts recognized in the consolidated financial statements for tax-related interest and penalties for the years ended December 31, are as follows:

	2011	2010	2009
	(in millions)		
Interest and penalties recognized in the consolidated statements of operations	$13	$ 7	$(70)
Interest and penalties recognized in liabilities in the consolidated statements of financial position	$28	$72	$ 65

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the 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.

During 2004 through 2006, the Company entered into two transactions that involved, among other things, the payment of foreign income taxes that were credited against the Company's U.S. tax liability. On May 23, 2011, the IRS issued notices of proposed adjustments disallowing the foreign tax credits claimed and related transaction expenses. The total amount of the proposed adjustments for the transactions was approximately $200 million of tax and penalties. During the fourth quarter of 2011, the Company reached agreement with the IRS on the resolution of the proposed foreign tax credits disallowance. The impact to the 2011 results attributable to the settlement was an increase to tax expense of approximately $93 million. The settlement of the foreign tax credit transactions for 2004 through 2006 marked the conclusion of the IRS audits for those years. As a result, all unrecognized tax positions plus interest relating to tax years prior to 2007 were recognized in 2011. As such, 2011 benefited from a reduction to the liability for unrecognized tax benefits of $70 million, including the impact from the foreign tax credit disallowance.

The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

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

In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new guidance the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On February 13, 2012, the Obama Administration released the "General Explanations of the Administration's Revenue Proposals." One proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company's consolidated net income. These activities had no impact on the Company's 2009, 2010 or 2011 results.

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

19. INCOME TAXES *(continued)*

For tax years 2007 through 2011, the Company is participating in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management's expectation this program will shorten the time period between the filing of the Company's federal income tax returns and the IRS's completion of its examination of the returns.

The Company's affiliates in Japan file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2009, the Tokyo Regional Taxation Bureau ("TRTB") concluded a routine tax audit of the tax returns of Prudential Life Insurance Company Ltd. for its tax years ended March 31, 2004 to March 31, 2008. During 2011 the TRTB concluded a routine tax audit of the tax returns of Edison Life Insurance Company Ltd. for its tax years ended March 31, 2009 to March 31, 2010. These activities had no material impact on the Company's 2009, 2010 or 2011 results.

The Company's affiliates in South Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2009, a local district office in the South Korean tax authority concluded a routine tax audit of the local taxes for tax years ended March 31, 2004 through March 31, 2007 of Prudential Life Insurance Company of Korea, Ltd. ("POK"). During 2010, South Korea's National Tax Service concluded a general tax audit of POK's tax years ended March 31, 2006 to March 31, 2010. These activities had no material impact on the Company's 2009, 2010 or 2011 results.

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

20. FAIR VALUE OF ASSETS AND LIABILITIES

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

Level 1—Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company's Level 1 assets and liabilities primarily include certain cash equivalents and short-term investments, equity securities and derivative contracts that are traded in an active exchange market. Prices are obtained from readily available sources for market transactions involving identical assets or liabilities.

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

Level 3—Fair value is based on at least one or more significant unobservable inputs for the asset or liability. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

benefits. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain conditions, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company may choose to over-ride the third party pricing information or quotes received and apply internally-developed values to the related assets or liabilities. To the extent the internally-developed valuations use significant unobservable inputs, they are classified as Level 3. As of December 31, 2011 and 2010, these over-rides on a net basis were not material.

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

	As of December 31, 2011				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 15,038	$ 66	$	$ 15,104
Obligations of U.S. states and their political subdivisions	0	3,055	0		3,055
Foreign government bonds	0	76,962	25		76,987
Corporate securities	12	125,411	1,450		126,873
Asset-backed securities	0	8,165	2,528		10,693
Commercial mortgage-backed securities	0	11,935	145		12,080
Residential mortgage-backed securities	0	9,840	16		9,856
Subtotal	12	250,406	4,230		254,648
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	502	39		555
Asset-backed securities	0	593	59		652
Commercial mortgage-backed securities	0	96	14		110
Residential mortgage-backed securities	0	94	2		96
Equity securities	305	40	1,276		1,621
All other(2)	15	13,547	93	(11,222)	2,433
Subtotal	336	14,948	1,483	(11,222)	5,545
Equity securities, available for sale	5,004	2,171	360		7,535
Commercial mortgage and other loans	0	514	86		600
Other long-term investments	193	(11)	1,110		1,292
Short-term investments	5,506	3,254	0		8,760
Cash equivalents	2,667	6,762	0		9,429
Other assets	3	86	9		98
Subtotal excluding separate account assets	15,174	295,640	7,796	(11,222)	307,388
Separate account assets(3)	40,319	158,703	19,358		218,380
Total assets	$55,493	$454,343	$27,154	$(11,222)	$525,768
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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	As of December 31, 2010(4)				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 11,298	$ 0	$	$ 11,298
Obligations of U.S. states and their political subdivisions	0	2,231	0		2,231
Foreign government bonds	0	50,212	27		50,239
Corporate securities	5	97,025	1,187		98,217
Asset-backed securities	0	9,238	1,753		10,991
Commercial mortgage-backed securities	0	11,907	130		12,037
Residential mortgage-backed securities	0	9,947	23		9,970
Subtotal	5	191,858	3,120		194,983
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	269	35		318
Asset-backed securities	0	607	54		661
Commercial mortgage-backed securities	0	84	19		103
Residential mortgage-backed securities	0	163	18		181
Equity securities	393	142	26		561
All other(2)	33	7,899	134	(5,904)	2,162
Subtotal	559	9,284	286	(5,904)	4,225
Equity securities, available-for-sale	4,458	2,928	355		7,741
Commercial mortgage and other loans	0	136	212		348
Other long-term investments	37	129	768		934
Short-term investments	3,307	1,669	0		4,976
Cash equivalents	2,475	6,661	0		9,136
Other assets	2,785	0	9		2,794
Subtotal excluding separate account assets	15,167	228,560	5,085	(5,904)	242,908
Separate account assets(3)	43,273	148,711	15,792		207,776
Total assets	$58,440	$377,271	$20,877	$(5,904)	$450,684
Future policy benefits	$ 0	$ 0	$ (204)	$	$ (204)
Other liabilities	1	6,736	3	(5,712)	1,028
Total liabilities	$ 1	$ 6,736	$ (201)	$(5,712)	$ 824

(1) "Netting" amounts represent cash collateral of $3,369 million and $192 million as of December 31, 2011 and December 31, 2010 and the impact of offsetting asset and liability positions held with the same counterparty.
(2) Primarily represents derivative assets.
(3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Consolidated Statement of Financial Position.
(4) Includes reclassifications to conform to current period presentation.

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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

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

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

The fair value of private fixed maturities, which are primarily comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are not significant to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

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

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

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

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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

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

Other Long-Term Investments—Other long-term investments include limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are considered investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds. The fair value of the feeder fund investments in master funds are generally determined by reference to the investments in the underlying master funds.

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

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

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

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

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

The majority of the Company's derivative positions are traded in the over-the-counter ("OTC") derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models generally accepted in the financial services industry that use actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The fair values of most OTC derivatives, including interest rate and cross currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and to-be-announced (or TBA) forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, non-performance risk, volatility and other factors.

OTC derivative contracts are executed under master netting agreements with counterparties with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties, should either party suffer a credit rating deterioration. The vast majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's non-performance risk, the Company incorporates additional spreads over London Interbank Offered Rate ("LIBOR") into the discount rate used in determining the fair value of OTC derivative assets and liabilities. The additional credit spread over LIBOR rates is determined taking into consideration publicly available information relating to the financial strength of the Company. The Company adjusts these credit spreads to remove any illiquidity risk premium, which is subject to a floor based on a percentage of the credit spread.

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

However, the non-performance risk adjustment is applied only to the uncollateralized portion of the OTC derivative assets and liabilities, after consideration of the impacts of two-way collateral posting. Most OTC derivative contract inputs have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. The Company's policy is to use mid-market pricing in determining its best estimate of fair value.

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

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

Other Assets and Other Liabilities—Other assets carried at fair value as of December 31, 2010 include U.S. Treasury bills held within the Company's former global commodities business whose fair values are based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. As a result, they are reported in the Level 1 hierarchy. Other Liabilities as of both December 31, 2011 and 2010, respectively, include derivative instruments for which fair values are determined as described above under "Derivative Instruments."

Future Policy Benefits—The liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"), accounted for as embedded derivatives. The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or 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. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management judgment.

The Company is also required to incorporate the market-perceived risk of its own non-performance ("NPR") in the valuation of the embedded derivatives associated with its optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the financial strength ratings of the Company's insurance subsidiaries in the valuation of the liability or contra-liability appropriately takes into takes into consideration its NPR. To reflect NPR, the Company incorporates an additional credit spread over LIBOR rates into the discount rate used in the valuations of the embedded derivatives associated with its optional living benefit features. The additional credit spread over LIBOR rates is determined taking into consideration publicly available information relating to the financial strength of the Company's insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. The Company adjusts these credit spreads to remove any illiquidity risk premium, which is subject to a floor based on a percentage of the credit spread. 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.

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

As of December 31, 2011, the value of the embedded derivatives associated with the optional living benefit features of the Individual Annuities segment, before 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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

December 31, 2011, the Company's 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 the Company incorporated into the discount rate used in the valuations of those embedded derivatives in a liability position. Significant declines in risk-free interest rates and the impact of account value performance in 2011 drove an increase in the embedded derivative liability associated with the optional living benefit features of the Company's variable annuity products as of December 31, 2011. These factors, as well as an overall widening of the spreads used in valuing NPR, which reflect the financial strength ratings of the Company's insurance subsidiaries, also drove offsetting increases in the NPR adjustment. Partially offsetting these items was a $506 million charge relating to a refinement to the calculation of the NPR that the Company implemented in the fourth quarter of 2011, which incorporates a floor to the illiquidity risk premium reduction at a percentage of the credit spread.

Transfers between Levels 1 and 2—Periodically there are transfers between Level 1 and Level 2 for foreign common stocks held in the Company's Separate Account. In certain periods, an adjustment may be made for the fair value of these assets beyond the quoted market price to reflect events that occurred between the close of foreign trading markets and the close of U.S. trading markets for that day. If an adjustment is made in the reporting period, these Separate Accounts are classified as Level 2. When an adjustment is not made, they are classified as Level 1. This type of adjustment was not made at December 31, 2011 or at December 31, 2010. This adjustment was made at December 31, 2009, as a result, for the year ended December 31, 2010, $3.4 billion of transfers from Level 2 to Level 1 occurred for these Separate Account assets on a net basis.

Changes in Level 3 assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 31, 2011, as well as the portion of gains or losses included in income for the year ended December 31, 2011 attributable to unrealized gains or losses related to those assets and liabilities still held at December 31, 2011.

	Year Ended December 31, 2011					
	Fixed Maturities Available-For-Sale-U.S. Government Authorities	Fixed Maturities Available-For-Sale-Foreign Government Bonds	Fixed Maturities-Available For-Sale-Corporate Securities	Fixed Maturities Available-For-Sale-Asset-Backed Securities	Fixed Maturities Available-For-Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available-For-Sale-Residential Mortgage-Backed Securities
	(in millions)					
Fair Value, beginning of period	$ 0	$27	$1,187	$1,753	$130	$23
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	(31)	38	(41)	0
Asset management fees and other income	0	0	0	0	0	0
Included in other comprehensive income (loss)	0	2	(139)	(14)	8	(1)
Net investment income	0	0	9	24	(1)	0
Purchases	66	0	556	1,473	5	1
Sales	0	(1)	(144)	(558)	(30)	(1)
Issuances	0	0	33	0	0	0
Settlements	0	0	(387)	(373)	(36)	(5)
Foreign currency translation	0	0	7	54	8	0
Other(1)	0	0	143	502	31	(1)
Transfers into Level 3(2)	0	0	893	252	76	0
Transfers out of Level 3(2)	0	(3)	(677)	(623)	(5)	0
Fair Value, end of period	$66	$25	$1,450	$2,528	$145	$16
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):						
Included in earnings:						
Realized investment gains (losses), net	$ 0	$ 0	$ (39)	$ 7	$ (55)	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 0	$ 2	$ (63)	$ (4)	$ 13	$ (1)

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2011				
	Trading Account Assets Supporting Insurance Liabilities-U.S. Government Authorities	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$0	$ 82	$226	$ 5	$ 18
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	6	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	3	0	0
Purchases	9	72	305	10	0
Sales	0	(11)	(23)	0	0
Issuances	0	0	0	0	0
Settlements	0	(39)	(97)	(3)	(1)
Foreign currency translation	0	0	0	0	0
Other(1)	0	0	15	0	(15)
Transfers into Level 3(2)	0	43	0	19	0
Transfers out of Level 3(2)	0	(44)	(72)	(10)	0
Fair Value, end of period	$9	$109	$357	$ 21	$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$0	$ 4	$ (1)	$ 0	$ 0

	Year Ended December 31, 2011				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 4	$35	$ 54	$ 19	$ 18
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	(6)	1	(3)	2	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	2	2	0
Purchases	5	10	0	0	0
Sales	(45)	(7)	(18)	(13)	(2)
Issuances	0	0	0	0	0
Settlements	(15)	0	(9)	(2)	(1)
Foreign currency translation	1	0	5	1	1
Other(1)	0	(1)	2	13	(14)
Transfers into Level 3(2)	76	1	39	5	0
Transfers out of Level 3(2)	0	0	(13)	(13)	0
Fair Value, end of period	$ 20	$39	$ 59	$ 14	$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ (8)	$ 1	$ (6)	$ (1)	$ 0

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2011				
	Other Trading Account Assets-Equity Securities	Other Trading Account Assets-All Other Activity	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments
			(in millions)		
Fair Value, beginning of period	$ 26	$134	$ 355	$ 212	$ 768
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(31)	(16)	15	2
Asset management fees and other income	(63)	3	0	0	(1)
Included in other comprehensive income (loss)	0	0	27	0	0
Net investment income	0	0	0	0	(27)
Purchases	34	0	63	0	280
Sales	(62)	0	(66)	0	(25)
Issuances	0	0	0	0	0
Settlements	(111)	(18)	(46)	(141)	(168)
Foreign currency translation	24	0	75	0	14
Other(1)	1,302	0	(853)	0	267
Transfers into Level 3(2)	126	5	823	0	0
Transfers out of Level 3(2)	0	0	(2)	0	0
Fair Value, end of period	$1,276	$ 93	$ 360	$ 86	$1,110
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (31)	$ (25)	$ 15	$ 2
Asset management fees and other income	$ (72)	$ 3	$ 0	$ 0	$ 24
Included in other comprehensive income (loss)	$ 0	$ 0	$ 47	$ 0	$ 0

	Year Ended December 31, 2011			
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities
		(in millions)		
Fair Value, beginning of period	$9	$15,792	$ 204	$ (3)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	(2,554)	(16)
Asset management fees and other income	0	0	0	0
Interest credited to policyholders' account	0	2,868	0	0
Included in other comprehensive income (loss)	0	0	0	0
Net investment income	0	0	0	0
Purchases	0	3,111	0	0
Sales	0	(1,462)	0	0
Issuances	0	3	(506)	(284)
Settlements	0	(1,156)	(1)	18
Foreign currency translation	0	0	1	0
Other(1)	0	0	(30)	0
Transfers into Level 3(2)	0	864	0	0
Transfers out of Level 3(2)	0	(662)	0	0
Fair Value, end of period	$9	$19,358	$(2,886)	$(285)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$0	$ 0	$(2,566)	$ (17)
Asset management fees and other income	$0	$ 0	$ 0	$ 0
Interest credited to policyholders' account	$0	$ 1,823	$ 0	$ 0

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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

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

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 31, 2010, as well as the portion of gains or losses included in income for the year ended December 31, 2010, attributable to unrealized gains or losses related to those assets and liabilities still held at December 31, 2010.

	Year Ended December 31, 2010				
	Fixed Maturities Available-For-Sale-Foreign Government Bonds	Fixed Maturities Available-For-Sale-Corporate Securities	Fixed Maturities Available-For-Sale-Asset-Backed Securities	Fixed Maturities Available-For-Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available-For-Sale-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 47	$ 902	$ 6,363	$ 305	$104
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(27)	(55)	(142)	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	0	101	158	39	0
Net investment income	0	12	(18)	(1)	1
Purchases, sales, issuances, and settlements	0	(208)	392	(46)	(6)
Foreign currency translation	0	0	2	3	0
Other(1)	0	9	1	48	(48)
Transfers into Level 3(2)	0	547	131	8	2
Transfers out of Level 3(2)	(20)	(149)	(5,221)	(84)	(30)
Fair Value, end of period	$ 27	$1,187	$ 1,753	$ 130	$ 23
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (31)	$ (64)	$(148)	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 0	$ 109	$ 147	$ 42	$ 0

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2010			
	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
	(in millions)			
Fair Value, beginning of period	$ 83	$ 281	$ 5	$20
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	0	0
Asset management fees and other income	(1)	1	3	1
Included in other comprehensive income (loss)	0	0	0	0
Net investment income	1	1	0	0
Purchases, sales, issuances, and settlements	(36)	185	(1)	(3)
Foreign currency translation	0	0	0	0
Other(1)	0	0	0	0
Transfers into Level 3(2)	72	9	31	0
Transfers out of Level 3(2)	(37)	(251)	(33)	0
Fair Value, end of period	$ 82	$ 226	$ 5	$18
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ (3)	$ 1	$ 5	$ 1

	Year Ended December 31, 2010				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
	(in millions)				
Fair Value, beginning of period	$ 3	$34	$ 97	$ 27	$12
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	2	2	11	6	3
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	2	1	1
Purchases, sales, issuances, and settlements	(1)	3	(76)	(15)	(6)
Foreign currency translation	0	0	3	2	2
Other(1)	0	(2)	5	(2)	2
Transfers into Level 3(2)	0	0	21	6	9
Transfers out of Level 3(2)	0	(2)	(9)	(6)	(5)
Fair Value, end of period	$ 4	$35	$ 54	$ 19	$18
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ 2	$ 2	$ 9	$ 4	$ 2

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2010				
	Other Trading Account Assets-Equity Securities	Other Trading Account Assets-All Other Activity	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments
	(in millions)				
Fair Value, beginning of period	$24	$297	$393	$ 338	$498
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(67)	24	23	(5)
Asset management fees and other income	(1)	5	0	0	62
Included in other comprehensive income (loss)	0	0	(19)	0	0
Net investment income	0	0	0	0	2
Purchases, sales, issuances, and settlements	5	(98)	(56)	(149)	211
Foreign currency translation	0	0	11	0	0
Other(1)	0	(3)	0	0	0
Transfers into Level 3(2)	0	0	3	0	0
Transfers out of Level 3(2)	(2)	0	(1)	0	0
Fair Value, end of period	$26	$134	$355	$ 212	$768
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (67)	$ (29)	$ 22	$ (6)
Asset management fees and other income	$ 0	$ 5	$ 0	$ 0	$ 46
Included in other comprehensive income (loss)	$ 0	$ 0	$ 26	$ 0	$ 0

	Year Ended December 31, 2010				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Long-term Debt	Other Liabilities
	(in millions)				
Fair Value, beginning of period	$ 27	$13,052	$ (55)	$(429)	$(6)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	570	0	1
Asset management fees and other income	(7)	0	0	0	0
Interest credited to policyholders' account balances	0	2,129	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances, and settlements	(11)	851	(311)	429	2
Foreign currency translation	0	0	0	0	0
Other(1)	0	0	0	0	0
Transfers into Level 3(2)	0	171	0	0	0
Transfers out of Level 3(2)	0	(411)	0	0	0
Fair Value, end of period	$ 9	$15,792	$ 204	$ 0	$(3)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 522	$ 0	$ 1
Asset management fees and other income	$ (7)	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders' account balances	$ 0	$ 1,081	$ 0	$ 0	$ 0

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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

Transfers—Transfers out of Level 3 for Fixed Maturities Available-for-Sale—Asset-Backed Securities and Trading Account Assets Supporting Insurance Liabilities—Asset-Backed Securities include $4,974 million and $222 million, respectively, for the year ended December 31, 2010 resulting from the Company's conclusion that the market for asset-backed securities collateralized by sub-prime mortgages has been becoming increasingly active, as evidenced by orderly transactions. The pricing received from independent pricing services could be validated by the Company. The market for asset-backed securities was deemed inactive in 2009. Other transfers out of Level 3 were typically due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate. Transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized.

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 31, 2009, as well as the portion of gains or losses included in income for the year ended December 31, 2009, attributable to unrealized gains or losses related to those assets and liabilities still held at year ended December 31, 2009.

	Year Ended December 31, 2009				
	Fixed Maturities Available-For-Sale-Foreign Government Bonds	Fixed Maturities Available-For-Sale-Corporate Securities	Fixed Maturities Available-For-Sale-Asset-Backed Securities	Fixed Maturities Available-For-Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available-For-Sale-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 30	$ 932	$ 1,013	$ 66	$ 228
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(99)	(696)	(28)	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	6	104	2,334	(3)	1
Net investment income	0	15	56	5	1
Purchases, sales, issuances, settlements	138	(511)	(1,591)	(20)	32
Foreign currency translation	0	1	14	21	0
Other(1)	0	(23)	0	0	0
Transfers into Level 3(2)	11	889	5,305	264	0
Transfers out of Level 3(2)	(138)	(406)	(72)	0	(158)
Fair Value, end of period	$ 47	$ 902	$ 6,363	$305	$ 104
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$(103)	$ (695)	$ (30)	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 6	$ 96	$ 2,277	$ (8)	$ 1

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2009				
	Trading Account Assets Supporting Insurance Liabilities-Foreign Government Bonds	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 0	$ 75	$ 35	$ 6	$28
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	20	59	(1)	3
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	2	0	0	0
Purchases, sales, issuances, settlements	12	(72)	(68)	0	(4)
Foreign currency translation	0	0	0	0	0
Other(1)	0	0	0	0	0
Transfers into Level 3(2)	0	229	266	0	0
Transfers out of Level 3(2)	(12)	(171)	(11)	0	(7)
Fair Value, end of period	$ 0	$ 83	$281	$ 5	$20
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ 0	$ 16	$ 47	$(1)	$ 3

	Year Ended December 31, 2009				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$1	$ 38	$ 30	$ 2	$ 3
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	2	(1)	(34)	(9)	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	1	1	1
Purchases, sales, issuances, settlements	0	6	827	4	0
Foreign currency translation	0	0	2	2	0
Other(1)	0	(11)	36	0	0
Transfers into Level 3(2)	0	2	26	30	11
Transfers out of Level 3(2)	0	0	(791)	(3)	(3)
Fair Value, end of period	$3	$ 34	$ 97	$ 27	$12
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$2	$ 1	$ (38)	$(10)	$ 0

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2009				
	Other Trading Account Assets– Equity Securities	Other Trading Account Assets– All Other Activity	Equity Securities Available– For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments
			(in millions)		
Fair Value, beginning of period	$19	$ 1,304	$ 325	$ 56	$1,015
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(338)	(8)	(74)	5
Asset management fees and other income	1	27	0	0	(81)
Included in other comprehensive income (loss)	0	0	74	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances, settlements	0	(701)	(30)	(58)	155
Foreign currency translation	(1)	0	21	0	0
Other(1)	6	5	14	0	(594)
Transfers into Level 3(2)	0	0	12	414	(2)
Transfers out of Level 3(2)	(1)	0	(15)	0	0
Fair Value, end of period	$24	$ 297	$ 393	$ 338	$ 498
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (338)	$ (21)	$ (70)	$ 5
Asset management fees and other income	$ 2	$ 3	$ 0	$ 0	$ (70)
Included in other comprehensive income (loss)	$ 0	$ 0	$ 73	$ 0	$ 0

	Year Ended December 31, 2009				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Long-term Debt	Other Liabilities
			(in millions)		
Fair Value, beginning of period	$26	$19,780	$(3,229)	$(324)	$ (139)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	3,313	0	77
Asset management fees and other income	0	0	0	0	0
Interest credited to policyholders' account balances	0	(7,368)	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances, settlements	1	479	(139)	(429)	56
Foreign currency translation	0	0	0	0	0
Other(1)	0	0	0	324	0
Transfers into Level 3(2)	0	559	0	0	0
Transfers out of Level 3(2)	0	(398)	0	0	0
Fair Value, end of period	$27	$13,052	$ (55)	$(429)	$ (6)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 3,208	$ 0	$ 77
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders' account balances	$ 0	$ (7,582)	$ 0	$ 0	$ 0

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

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

Transfers—Transfers into Level 3 for Fixed Maturities Available-for-Sale—Asset-Backed securities and Trading Account Assets Supporting Insurance Liabilities—Asset-Backed securities include $4,583 million and $188 million, respectively for the year ended December 31, 2009, resulting from the Company's conclusion that the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market. Transfers into Level 3 for Fixed Maturities, Available-for-Sale—Commercial Mortgage-Backed securities for the year ended December 31, 2009 is primarily the result of over-riding the third party pricing information downward with internally-developed valuations for certain securities held in the Japanese insurance operations portfolio. Transfers into Level 3 for Commercial Mortgage and Other Loans for the year ended December 31, 2009 is primarily due to downward credit migration of these loans. The downgrade in loans has resulted in the utilization of higher credit spreads, that are internally-developed and not observable in the market place. This increase in credit spreads is now considered a significant input in the fair value calculation for these loans. Transfers out of Level 3 for Other Trading Account Assets—Asset-Backed securities were primarily the result of the use of third party pricing for the securities purchased under the Federal Reserve's Term Asset-Backed Securities Loan Facility ("TALF"). In the first quarter of 2009, these assets were valued internally using a model.

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

Derivative Fair Value Information

The following tables present the balance of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying. These tables exclude embedded derivatives which are recorded with the associated host contract. The derivative assets and liabilities shown below are included in "Other trading account assets," "Other long-term investments" or "Other liabilities" in the tables presented previously in this note, under the headings "Assets and Liabilities by Hierarchy Level" and "Changes in Level 3 Assets and Liabilities." The amounts in the Hierarchy Level columns below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral held with the same counterparty. This netting impact is reflected in the netting column below, as well as in the Consolidated Statement of Financial Position.

	As of December 31, 2011				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Derivative assets:					
Interest Rate	$ 10	$12,383	$ 5	$	$ 12,398
Currency	0	219	0		219
Credit	0	56	1		57
Currency/Interest Rate	0	562	0		562
Equity	149	365	83		597
Netting(1)				(11,222)	(11,222)
Total derivative assets	$159	$13,585	$89	$(11,222)	$ 2,611
Derivative liabilities:					
Interest Rate	$ 9	$ 6,587	$ 6	$	$ 6,602
Currency	0	297	0		297
Credit	0	130	0		130
Currency/Interest Rate	0	928	0		928
Equity	0	246	0		246
Netting(1)				(7,854)	(7,854)
Total derivative liabilities	$ 9	$ 8,188	$ 6	$ (7,854)	$ 349

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	As of December 31, 2010				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative assets:					
Interest Rate	$ 17	$5,268	$ 0	$	$ 5,285
Currency	7	1,054	0		1,061
Credit	0	91	0		91
Currency/Interest Rate	0	544	0		544
Equity	1	392	126		519
Commodity	144	235	0		379
Netting(1)				(5,904)	(5,904)
Total derivative assets	$169	$7,584	$126	$(5,904)	$ 1,975
Derivative liabilities:					
Interest Rate	$ 18	$4,038	$ 12	$	$ 4,068
Currency	0	1,108	0		1,108
Credit	0	116	0		116
Currency/Interest Rate	0	1,068	0		1,068
Equity	0	174	0		174
Commodity	0	314	0		314
Netting(1)				(5,712)	(5,712)
Total derivative liabilities	$ 18	$6,818	$ 12	$(5,712)	$ 1,136

(1) "Netting" amounts represent cash collateral of $3,369 million and $192 million as of December 31, 2011 and 2010, respectively, and the impact of offsetting asset and liability positions held with the same counterparty.

Changes in Level 3 derivative assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the year ended December 31, 2011, as well as the portion of gains or losses included in income for the year ended December 31, 2011, attributable to unrealized gains or losses related to those assets and liabilities still held at December 31, 2011.

	Year Ended December 31, 2011		
	Derivative Assets–Equity	Derivative Assets–Credit	Derivative Liabilities–Interest Rate
	(in millions)		
Fair Value, beginning of period	$126	$0	$(12)
Total gains or (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	(29)	1	11
Asset management fees and other income	0	0	0
Settlements	(14)	0	0
Transfers into Level 3(1)	0	0	0
Transfers out of Level 3(1)	0	0	0
Fair Value, end of period	$ 83	$1	$ (1)
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:			
Included in earnings:			
Realized investment gains (losses), net	$ (29)	$1	$ 11
Asset management fees and other income	$ 0	$0	$ 0

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

	Year Ended December 31, 2010		
	Derivative Assets–Equity	Derivative Liabilities–Credit	Derivative Liabilities–Interest Rate
	(in millions)		
Fair Value, beginning of period	$288	$(6)	$ (4)
Total gains or (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	(80)	6	(8)
Asset management fees and other income	0	0	0
Purchases, sales, issuances and settlements	(82)	0	0
Transfers into Level 3(1)	0	0	0
Transfers out of Level 3(1)	0	0	0
Fair Value, end of period	$126	$ 0	$(12)
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:			
Included in earnings:			
Realized investment gains (losses), net	$ (80)	$ 6	$ (8)
Asset management fees and other income	$ 0	$ 0	$ 0

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

Nonrecurring Fair Value Measurements—Certain assets and liabilities are measured at fair value on a nonrecurring basis. Nonrecurring fair value adjustments resulted in $7 million of losses being recorded for the year ended December 31, 2011 on certain commercial mortgage loans. The carrying value of these loans as of December 31, 2011 was $110 million. Similar losses on commercial mortgage loans of $73 million and $200 million were recorded for the years ended December 31, 2010 and 2009, respectively. The adjustments were based on either discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral and were classified as Level 3 in the hierarchy. The fair value measurements were classified as Level 3 in the valuation hierarchy. The inputs utilized for these valuations are pricing indicators from the whole loan market, which the Company considers its principal market for these loans.

Impairments of $8 million, $6 million and $55 million were recorded for the years ended December 31, 2011, 2010 and 2009, respectively, on certain cost method investments. In addition, impairments of $2 million, $4 million and $12 million were recorded for the years ended December 31, 2011, 2010 and 2009, respectively, on certain equity method investments. These fair value adjustments were based on inputs classified as Level 3 in the valuation hierarchy. The inputs utilized were primarily discounted estimated future cash flows and, where appropriate, valuations provided by the general partners taken into consideration with deal and management fee expenses.

Impairments of $9 million, $6 million and $12 million for the years ended December 31, 2011, 2010 and 2009, respectively, were recorded for mortgage servicing rights. The impairments were based on internal models and were classified as Level 3 in the hierarchy. In addition, impairments of $22 million and $7 million for the years ended December 31, 2011 and 2009, respectively, were recorded for real estate investments, some of which were classified as discontinued operations. The impairments were based on appraisal values or purchase agreements and were classified as Level 3 in the hierarchy.

Fair Value Option—The following table presents information regarding changes in fair values recorded in earnings for commercial mortgage loans, other long-term investments and other liabilities, where the fair value option has been elected.

	Years Ended December 31,		
	2011	2010	2009
	(in millions)		
Assets:			
Commercial mortgage loans:			
Changes in instrument-specific credit risk	$ 1	$ 6	$(69)
Other changes in fair value	4	3	0
Other long-term investments:			
Changes in fair value	(5)	18	0
Liabilities:			
Other liabilities:			
Changes in fair value	0	0	0

Changes in fair value are reflected in "Realized investment gains (losses), net" for commercial mortgage loans and "Asset management fees and other income" for other long-term investments and other liabilities. Changes in fair value due to instrument-specific credit risk are estimated based on changes in credit spreads and quality ratings for the period reported.

Interest income on commercial mortgage loans is included in net investment income. For the years ended December 31, 2011, 2010 and 2009, the Company recorded $12 million, $22 million and $37 million of interest income, respectively, on these fair value option loans. Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan.

The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were $603 million and $598 million, respectively, as of December 31, 2011, and $364 million and $393 million, respectively, as

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

December 31, 2010. As of December 31, 2011, such loans that were in nonaccrual status had fair values of $21 million and aggregate contractual principal amounts of $23 million. None of the loans where the fair value option has been elected are more than 90 days past due and still accruing.

The fair value of other long-term investments were $366 million and $258 million as of December 31, 2011 and 2010, respectively.

The fair value and aggregate contractual principal amounts of other liabilities, for which the fair value option has been elected, were $282 million and $294 million, respectively, as of December 31, 2011.

Fair Value of Financial Instruments

The Company is required by U.S. GAAP to disclose the fair value of certain financial instruments including those that are not carried at fair value. For the following financial instruments the carrying amount equals or approximates fair value: fixed maturities classified as available-for-sale, trading account assets supporting insurance liabilities, other trading account assets, equity securities, securities purchased under agreements to resell, short-term investments, cash and cash equivalents, accrued investment income, separate account assets, investment contracts included in separate account liabilities, securities sold under agreements to repurchase, and cash collateral for loaned securities, as well as certain items recorded within other assets and other liabilities such as broker-dealer related receivables and payables. See Note 21 for a discussion of derivative instruments.

The following table discloses the Company's financial instruments where the carrying amounts and fair values may differ:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Assets:				
Fixed maturities, held-to-maturity	$ 5,107	$ 5,354	$ 5,226	$ 5,477
Commercial mortgage and other loans(1)	35,431	37,741	31,831	33,129
Policy loans	11,559	14,858	10,667	12,781
Liabilities:				
Policyholders' account balances—investment contracts	$102,245	$103,184	$77,254	$78,757
Short-term and long-term debt(1)	26,958	28,174	25,635	27,094
Debt of consolidated VIEs(1)	524	493	382	265
Bank customer liabilities	1,730	1,745	1,752	1,773

(1) Includes items carried at fair value under the fair value option.

The fair values presented above for those financial instruments where the carrying amounts and fair values may differ have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Fixed Maturities, held-to-maturity

The fair values of public fixed maturity securities are generally based on prices from third party pricing services, which are reviewed to validate reasonability. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities the fair value is based on non-binding broker quotes, if available, or determined using a discounted cash flow model or internally-developed values. For private fixed maturities fair value is determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

The fair value of commercial mortgage loans is primarily based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or Foreign Government Bond rate (for non-U.S. dollar-denominated loans) adjusted for appropriate credit spread for similar quality loans. The quality ratings for these loans, a primary determinant of the credit spread and a significant component of the pricing input, are based upon an internally-developed methodology. The internally derived credit spreads take into account public corporate bond spreads of similar quality and maturity, public commercial mortgage-backed securities spreads, third-party mortgage loan survey spreads and other relevant market information such as pricing indications from market participants on new originations, and where applicable adjustments for property types and locations.

The fair value of certain commercial mortgage loans, for which a discounted cash flow model is not appropriate, is based on internally-developed values that incorporate various factors, including the terms of the loans, the principal exit strategies for the loans, prevailing interest rates, and credit risk.

The fair value of the other loans, which include collateralized and uncollateralized loans, is primarily based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or Foreign Government Bond rate (for non-U.S. dollar-denominated loans) or other observable inputs, such as local market swap rates and credit default swap spreads, adjusted for an appropriate credit spread and liquidity premium. The credit spread and liquidity premium are a significant component of the pricing inputs, and are based upon an internally-developed methodology, which takes into account, among other factors, the credit quality of the loans, the property type of the collateral, the weighted average coupon, and the weighted average life of the loans.

20. FAIR VALUE OF ASSETS AND LIABILITIES *(continued)*

Policy Loans

The fair value of U.S. insurance policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayment patterns, while Japanese insurance policy loans use the risk-free proxy based on the Yen LIBOR. For group corporate-, bank- and trust-owned life insurance contracts and group universal life contracts, the fair value of the policy loans is the amount due, excluding interest, as of the reporting date.

Investment Contracts—Policyholders' Account Balances

Only the portion of policyholders' account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, single premium endowments, payout annuities and other similar contracts without life contingencies, fair values are derived using discounted projected cash flows based on interest rates that are representative of the Company's financial strength ratings, and hence reflect the Company's own non-performance risk. For guaranteed investment contracts, funding agreements, structured settlements without life contingencies and other similar products, fair values are derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products the fair value is the market value of the assets supporting the liabilities.

Debt

The fair value of short-term and long-term debt, as well as debt of consolidated VIEs, is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. With the exception of the debt of consolidated VIEs, these fair values consider the Company's own non-performance risk. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For commercial paper issuances and other debt with a maturity of less than 90 days, the carrying value approximates fair value. Debt of consolidated VIEs is reflected within "Other liabilities."

A portion of the senior secured notes issued by Prudential Holdings, LLC (the "IHC debt") is insured by a third-party financial guarantee insurance policy. The effect of the third-party credit enhancement is not included in the fair value measurement of the IHC debt and the methodologies used to determine fair value consider the Company's own non-performance risk.

Bank Customer Liabilities

The carrying amount for certain deposits (interest and non-interest demand, savings and money market accounts) approximates or equals their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates being offered on certificates at the reporting dates to a schedule of aggregated expected monthly maturities. Bank customer liabilities are reflected within "Other liabilities."

21. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies used in a non-dealer or broker capacity

Interest Rate Contracts

Interest rate swaps are used by the Company to manage interest rate exposures arising from mismatches between assets and liabilities (including duration mismatches) and to hedge against changes in the value of assets it anticipates acquiring and other anticipated transactions and commitments. Swaps may be attributed to specific assets or liabilities or may be used on a portfolio basis. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date.

Exchange-traded futures and options are used by the Company to reduce risks from changes in interest rates, to alter mismatches between the duration of assets in a portfolio and the duration of liabilities supported by those assets, and to hedge against changes in the value of securities it owns or anticipates acquiring or selling. In exchange-traded futures transactions, the Company agrees to purchase or sell a specified number of contracts, the values of which are determined by the values of underlying referenced investments, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures and options with regulated futures commission's merchants who are members of a trading exchange.

Equity Contracts

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range. These hedges do not qualify for hedge accounting.

21. DERIVATIVE INSTRUMENTS *(continued)*

Foreign Exchange Contracts

Currency derivatives, including exchange-traded currency futures and options, currency forwards and currency swaps, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell. The Company also uses currency forwards to hedge the currency risk associated with net investments in foreign operations and anticipated earnings of its foreign operations.

Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the impact of changes in currency exchange rates on U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investments operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

Under currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date.

Credit Contracts

Credit derivatives are used by the Company to enhance the return on the Company's investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments. With credit derivatives the Company sells credit protection on an identified name, or a basket of names in a first to default structure, and in return receives a quarterly premium. With single name credit default derivatives, this premium or credit spread generally corresponds to the difference between the yield on the referenced name's public fixed maturity cash instruments and swap rates, at the time the agreement is executed. With first to default baskets, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket. If there is an event of default by the referenced name or one of the referenced names in a basket, as defined by the agreement, then the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced defaulted security or similar security. See credit derivatives written section for discussion of guarantees related to credit derivatives written. In addition to selling credit protection the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio.

Other Contracts

TBAs. The Company uses "to be announced" ("TBA") forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company to achieve better diversification and to enhance the return on its investment portfolio. TBAs can provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Additionally, pursuant to the Company's mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to repurchase them at a future date. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

Loan Commitments. In its mortgage operations, the Company enters into commitments to fund commercial mortgage loans at specified interest rates and other applicable terms within specified periods of time. These commitments are legally binding agreements to extend credit to a counterparty. Loan commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. The determination of the fair value of loan commitments accounted for as derivatives considers various factors including, among others, terms of the related loan, the intended exit strategy for the loans based upon either securitization valuation models or investor purchase commitments, prevailing interest rates, origination income or expense, and the value of service rights. Loan commitments that relate to the origination of mortgage loans that will be held for investment are not accounted for as derivatives and accordingly are not recognized in the Company's financial statements. See Note 15 for a further discussion of these loan commitments.

Embedded Derivatives. The Company sells variable annuity products, which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are marked to market through "Realized investment gains (losses), net" based on the change in value of the underlying contractual guarantees, which are determined using valuation models. The Company maintains a portfolio of derivative instruments that is intended to economically hedge the risks related to the above products' features. The derivatives may include, but are not limited to equity options, total return swaps, interest rate swap options, caps, floors, and other instruments. In addition, some variable annuity products feature an automatic rebalancing element to minimize risks inherent in the Company's guarantees which reduces the need for hedges.

The Company invests in fixed maturities that, in addition to a stated coupon, provide a return based upon the results of an underlying portfolio of fixed income investments and related investment activity. The Company accounts for these investments as available-for-sale fixed maturities containing embedded derivatives. Such embedded derivatives are marked to market through "Realized investment gains (losses), net," based upon the change in value of the underlying portfolio.

Synthetic Guarantees. The Company sells fee-based synthetic guaranteed investment contracts which include investment-only, stable value contracts, to qualified pension plans. The assets are owned by the trustees of such plans, who invest the assets under the terms of investment guidelines agreed to with the Company. The contracts contain a guarantee of a minimum rate of return on participant balances supported by the underlying assets, and a guarantee of liquidity to meet certain participant-initiated plan cash flow requirements. These contracts are accounted for as derivatives, recorded at fair value and classified as interest rate derivatives.

21. DERIVATIVE INSTRUMENTS *(continued)*

The table below provides a summary of the gross notional amount and fair value of derivatives contracts used in a non-dealer or broker capacity, excluding embedded derivatives which are recorded with the associated host, by the primary underlying. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral held with the same counterparty. This netting impact results in total derivative assets of $2,611 million and $1,975 million as of December 31, 2011 and December 31, 2010, respectively, and total derivative liabilities of $349 million and $1,136 million as of December 31, 2011 and December 31, 2010, respectively, reflected in the Consolidated Statement of Financial Position.

Primary Underlying/ Instrument Type	December 31, 2011 Notional Amount	December 31, 2011 Fair Value Assets	December 31, 2011 Fair Value Liabilities	December 31, 2010 Notional Amount	December 31, 2010 Fair Value Assets	December 31, 2010 Fair Value Liabilities
			(in millions)			
Qualifying Hedges:						
Interest Rate						
Interest Rate Swaps	$ 5,048	$ 62	$ (468)	$ 6,436	$ 109	$ (428)
Foreign Currency						
Foreign Currency Forwards	753	6	(4)	1,087	25	(6)
Currency/Interest Rate						
Foreign Currency Swaps	4,807	227	(438)	3,521	83	(449)
Total Qualifying Hedges	$ 10,608	$ 295	$ (910)	$ 11,044	$ 217	$ (883)
Non-Qualifying Hedges:						
Interest Rate						
Interest Rate Swaps	$107,560	$ 9,357	$(3,084)	$ 93,033	$3,712	$(2,102)
Interest Rate Futures	6,192	10	(9)	6,834	17	(18)
Interest Rate Options	601	13	(3)	655	15	(3)
Interest Rate Forwards	2,139	6	0	159	0	0
Synthetic GIC's	46,844	4	0	24,019	2	(1)
Foreign Currency						
Foreign Currency Forwards	16,228	176	(335)	10,645	219	(396)
Foreign Currency Options	98	23	0	0	0	0
Currency/Interest Rate						
Foreign Currency Swaps	5,390	224	(399)	5,047	192	(381)
Credit						
Credit Default Swaps	3,298	58	(130)	3,004	91	(114)
Equity						
Equity Futures	2	149	0	1	1	0
Equity Options	14,951	415	(66)	22,622	527	(23)
Total Return Swaps	6,797	34	(175)	3,381	0	(152)
Total Non-Qualifying Hedges	$210,100	$10,469	$(4,201)	$169,400	$4,776	$(3,190)
Total Derivatives(1)	$220,708	$10,764	$(5,111)	$180,444	$4,993	$(4,073)

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a net liability of $3,131 million as of December 31, 2011 and a net liability of $70 million as of December 31, 2010, included in "Future policy benefits" and "Fixed maturities, available-for-sale."

Cash Flow, Fair Value and Net Investment Hedges

The primary derivative instruments used by the Company in its fair value, cash flow, and net investment hedge accounting relationships are interest rate swaps, currency swaps and currency forwards. These instruments are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, equity or embedded derivatives in any of its fair value, cash flow or net investment hedge accounting relationships.

21. DERIVATIVE INSTRUMENTS *(continued)*

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding the offset of the hedged item in an effective hedge relationship:

	Year Ended December 31, 2011					
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders' Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Qualifying Hedges						
Fair value hedges						
Interest Rate	$ (122)	$(113)	$ 0	$ 8	$56	$ 0
Currency	28	(5)	0	0	0	0
Total fair value hedges	(94)	(118)	0	8	56	0
Cash flow hedges						
Interest Rate	0	0	0	(19)	(1)	(4)
Currency/Interest Rate	0	(14)	22	0	0	180
Total cash flow hedges	0	(14)	22	(19)	(1)	176
Net investment hedges						
Currency(2)	(9)	0	6	0	0	(6)
Currency/Interest Rate	0	0	0	0	0	(23)
Total net investment hedges	(9)	0	6	0	0	(29)
Non-qualifying hedges						
Interest Rate	5,133	0	0	0	0	0
Currency	125	0	0	0	0	0
Currency/Interest Rate	(4)	0	0	0	0	0
Credit	(38)	0	0	0	0	0
Equity	(318)	0	0	0	0	0
Embedded Derivatives	(2,579)	0	0	0	0	0
Total non-qualifying hedges	2,319	0	0	0	0	0
Total	$ 2,216	$(132)	$28	$(11)	$55	$147

	Year Ended December 31, 2010					
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders' Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Qualifying Hedges						
Fair value hedges						
Interest Rate	$ (71)	$(148)	$ 0	$ 15	$68	$ 0
Currency	100	(5)	0	0	0	0
Total fair value hedges	29	(153)	0	15	68	0
Cash flow hedges						
Interest Rate	0	0	0	(19)	(3)	(12)
Currency/Interest Rate	0	(9)	10	0	0	68
Total cash flow hedges	0	(9)	10	(19)	(3)	56
Net investment hedges						
Currency(2)	0	0	0	0	0	(71)
Currency/Interest Rate	0	0	0	0	0	(129)
Total net investment hedges	0	0	0	0	0	(200)
Non-qualifying hedges						
Interest Rate	1,952	0	0	0	0	0
Currency	(205)	0	0	0	0	0
Currency/Interest Rate	(17)	0	0	0	0	0
Credit	(101)	0	0	0	0	0
Equity	(1,115)	0	0	0	0	0
Embedded Derivatives	637	0	0	0	0	0
Total non-qualifying hedges	1,151	0	0	0	0	0
Total	$ 1,180	$(162)	$10	$ (4)	$65	$(144)

21. DERIVATIVE INSTRUMENTS *(continued)*

	Year Ended December 31, 2009					
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders' Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Qualifying Hedges						
Fair value hedges						
Interest Rate	$ 338	$(158)	$ 0	$ 5	$70	$ 0
Currency	8	0	2	0	0	0
Total fair value hedges	346	(158)	2	5	70	0
Cash flow hedges						
Interest Rate	0	0	0	(17)	(7)	61
Currency/Interest Rate	0	(9)	20	0	0	(151)
Total cash flow hedges	0	(9)	20	(17)	(7)	(90)
Net investment hedges						
Currency(2)	36	0	0	0	0	(80)
Currency/Interest Rate	0	0	0	0	0	(61)
Total net investment hedges	36	0	0	0	0	(141)
Non- qualifying hedges						
Interest Rate	(2,086)	0	0	0	0	0
Currency	(89)	0	0	0	0	0
Currency/Interest Rate	(212)	0	0	0	0	0
Credit	72	0	0	0	0	0
Equity	(1,376)	0	0	0	0	0
Embedded Derivatives	3,531	0	0	0	0	0
Total non-qualifying hedges	(160)	0	0	0	0	0
Total	$ 222	$(167)	$22	$(12)	$63	$(231)

(1) Amounts deferred in "Accumulated other comprehensive income (loss)."
(2) Relates to the sale of equity method investments.

For the years ended December 31, 2011, 2010 and 2009, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company's results of operations and there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

Presented below is a roll forward of current period cash flow hedges in "Accumulated other comprehensive income (loss)" before taxes:

	(in millions)
Balance, December 31, 2008	$(227)
Net deferred gains (losses) on cash flow hedges from January 1 to December 31, 2009	(132)
Amount reclassified into current period earnings	42
Balance, December 31, 2009	(317)
Net deferred gains (losses) on cash flow hedges from January 1 to December 31, 2010	30
Amount reclassified into current period earnings	26
Balance, December 31, 2010	(261)
Net deferred gains (losses) on cash flow hedges from January 1 to December 31, 2011	147
Amount reclassified into current period earnings	28
Balance, December 31, 2011	$ (86)

Using December 31, 2011 values, it is anticipated that a pre-tax loss of approximately $15 million will be reclassified from "Accumulated other comprehensive income (loss)" to earnings during the subsequent twelve months ending December 31, 2012, offset by amounts pertaining to the hedged items. As of December 31, 2011, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on

21. DERIVATIVE INSTRUMENTS *(continued)*

existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 19 years. Income amounts deferred in "Accumulated other comprehensive income (loss)" as a result of cash flow hedges are included in "Net unrealized investment gains (losses)" in the Consolidated Statements of Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within "Accumulated other comprehensive income (loss)" were $(102) million in 2011, $(73) million in 2010 and $127 million in 2009.

Credit Derivatives Written

The following table sets forth the Company's exposure from credit derivatives where the Company has written credit protection, by NAIC rating of the underlying credits as of December 31, 2011 and 2010. The Company's maximum amount at risk under these credit derivatives listed below assumes the value of the underlying referenced securities become worthless. These credit derivatives generally have maturities of less than 10 years. The table excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in externally-managed investments in the European market.

	December 31, 2011		December 31, 2010	
	Single Name		Single Name	
NAIC Designation	Notional	Fair Value	Notional	Fair value
	(in millions)			
1	$795	$3	$295	$3
2	25	0	25	0
Subtotal	820	3	320	3
3	0	0	0	0
4	0	0	0	0
5	0	0	0	0
6	0	0	0	0
Subtotal	0	0	0	0
Total	$820	$3	$320	$3

The following table sets forth the composition of the Company's credit derivatives where the Company has written credit protection by industry category as of the dates indicated.

	December 31, 2011		December 31, 2010	
Industry	Notional	Fair Value	Notional	Fair Value
	(in millions)			
Corporate Securities:				
Manufacturing	$ 40	$0	$ 40	$0
Utilities	0	0	0	0
Finance	500	1	0	0
Services	25	1	25	0
Energy	20	0	20	0
Transportation	25	0	25	0
Retail and Wholesale	20	0	20	0
Food/Beverage	55	1	55	1
Aerospace/Defense	50	0	50	0
Chemical	40	0	40	1
Other	45	0	45	1
Total Credit Derivatives	$820	$3	$320	$3

The Company entered into a credit derivative that will require the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. The notional of this credit derivative is $500 million and the fair value as of December 31, 2011 and 2010 was a liability of $77 million and $26 million, respectively. No collateral was pledged in either period.

The Company holds certain externally-managed investments in the European market which contain embedded derivatives whose fair value are primarily driven by changes in credit spreads. These investments are medium-term notes that are collateralized by investment portfolios primarily consisting of investment grade European fixed income securities, including corporate bonds and asset-backed securities, and derivatives, as well as varying degrees of leverage. The notes have a stated coupon and provide a return based on the performance of the underlying portfolios and the level of leverage. The Company invests in these notes to earn a coupon through maturity, consistent with its investment purpose for other debt securities. The notes are accounted for under U.S. GAAP as available-for-sale fixed

21. DERIVATIVE INSTRUMENTS *(continued)*

maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Equity under the heading "Accumulated Other Comprehensive Income (Loss)" and changes in the market value of the embedded total return swaps are included in current period earnings in "Realized investment gains (losses), net." The Company's maximum exposure to loss from these investments was $664 million and $754 million at December 31, 2011 and 2010, respectively.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of December 31, 2011 and 2010, the Company had $1.978 billion and $2.184 billion of outstanding notional amounts, respectively, reported at fair value as an asset of $2 million and an asset of less than $1 million, respectively.

Types of Derivative Instruments and Derivative Strategies used in a dealer or broker capacity

Futures, forwards and options contracts, and swap agreements, were also used in a derivative dealer or broker capacity in the Company's commodities operations, prior to the sale of this business to Jeffries on July 1, 2011, to facilitate transactions of clients, hedge proprietary trading activities and as a means of risk management. These derivatives allowed the Company to structure transactions to manage its exposure to commodities and securities prices, foreign exchange rates and interest rates. Risk exposures were managed through diversification, by controlling position sizes and by entering into offsetting positions.

The fair value of the Company's derivative contracts used in a derivative dealer or broker capacity were reported on a net-by-counterparty basis in the Company's Consolidated Statements of Financial Position when management believes a legal right of setoff exists under an enforceable netting agreement.

Realized and unrealized gains and losses from marking-to-market the derivatives used in proprietary positions were recognized on a trade date basis and reported in "Income from discontinued operations, net of taxes. The pre-tax amounts reported in "Income (loss) from discontinued operations, net of taxes" for these derivatives were gains of $63 million for 2011 and $97 million for 2010.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions. The Company manages credit risk by entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties, and by obtaining collateral where appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

The credit exposure of the Company's over-the-counter (OTC) derivative transactions is represented by the contracts with a positive fair value (market value) at the reporting date. To reduce credit exposures, the Company seeks to (i) enter into OTC derivative transactions pursuant to master agreements that provide for a netting of payments and receipts with a single counterparty (ii) enter into agreements that allow the use of credit support annexes (CSAs), which are bilateral rating-sensitive agreements that require collateral postings at established threshold levels. Likewise, the Company effects exchange-traded futures and options transactions through regulated exchanges and these transactions are settled on a daily basis, thereby reducing credit risk exposure in the event of non-performance by counterparties to such financial instruments.

Under fair value measurements, the Company incorporates the market's perception of its own and the counterparty's non-performance risk in determining the fair value of the portion of its OTC derivative assets and liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company's own credit spread a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company's counterparty's credit spread is applied to OTC derivative net asset positions.

Certain of the Company's derivative agreements with some of its counterparties contain credit-risk related triggers. If the Company's credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative or demand immediate full collateralization on derivative instruments in net liability positions. If a downgrade occurred and the derivative positions were terminated, the Company anticipates it would be able to replace the derivative positions with other counterparties in the normal course of business. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position were $148 million as of December 31, 2011. In the normal course of business the Company has posted collateral related to these instruments of $132 million as of December 31, 2011. If the credit-risk-related contingent features underlying these agreements had been triggered on December 31, 2011, the Company estimates that it would be required to post a maximum of $16 million of additional collateral to its counterparties.

22. SEGMENT INFORMATION

Segments

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

22. SEGMENT INFORMATION *(continued)*

U.S. Retirement Solutions and Investment Management Division. The U.S. Retirement Solutions and Investment Management division consists of the Individual Annuities, Retirement, and Asset Management segments. The Individual Annuities segment manufactures and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent market. The Retirement segment manufactures and distributes products and provides administrative services for qualified and non-qualified retirement plans and offers guaranteed investment contracts, funding agreements, institutional and retail notes, structured settlement annuities and group annuities. 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 to other segments of the Company.

U.S. Individual Life and Group Insurance Division. The U.S. Individual Life and Group Insurance division consists of the Individual Life and Group Insurance segments. The 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. The 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 benefit plans.

International Insurance Division. The International Insurance division consists of the International Insurance segment, which manufactures and distributes individual life insurance, retirement and related products to the mass affluent and affluent markets in Japan, Korea and other foreign countries through its Life Planner operations. In addition, similar products are offered to the broad middle income market across Japan through Life Advisors, the proprietary distribution channel of the Company's Gibraltar Life operation.

In February 2010, the Company signed a definitive agreement to sell Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprise the Company's Korean asset management operations. As a result, the Company has reflected the results of its Korean asset management operations as discontinued operations for all periods presented. This transaction closed on June 1, 2010.

On February 1, 2011, the Company completed the acquisition from AIG of the Star and Edison Businesses pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. All acquired businesses are in Japan and their results are included with the Company's Gibraltar Life operations. The Star and Edison Businesses primarily distribute individual life insurance, fixed annuities and certain accident and health products with fixed benefits through captive agents, independent agents, and banks. The addition of these operations to the Company's existing businesses increases its scale in the Japanese insurance market and provides complementary distribution opportunities.

On April 6, 2011, the Company entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. This sale was completed on July 1, 2011. As a result, the Company has reflected the results of the Global Commodities Business previously reported in the International Investments segment as discontinued operations for all periods presented. In addition, the remaining business activities previously reported as the International Investments segment have been reclassified and included in the International Insurance segment.

Corporate and Other. Corporate and Other includes corporate operations, after allocations to business segments, and divested businesses. 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 the Company 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 the Company's capital protection framework; and (8) the impact of transactions with other segments.

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. The Company retained ownership of a financing subsidiary of PRERS that continues to hold debt and equity investments in a limited number of real estate brokerage franchises. As a result, the PRERS operations previously reported as the Real Estate and Relocation Services segment, have been classified within divested businesses and are reflected in the Company's Corporate and Other operations. Accordingly, these results are excluded from adjusted operating income, with prior period results being adjusted to reflect such reclassification. In addition to PRERS, divested businesses consist primarily of the property and casualty insurance businesses, individual health and disability insurance businesses, financial advisory business, and commercial mortgage securitization operations.

22. SEGMENT INFORMATION *(continued)*

Closed Block Business. The Closed Block Business, which is managed separately from the Financial Services Businesses, was established on the date of demutualization. It includes the Closed Block (as discussed in Note 12); assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed in Note 14) and certain related assets and liabilities.

Segment Accounting Policies. The accounting policies of the segments are the same as those described in Note 2. Results for each segment include earnings on attributed equity established at a level which management considers necessary to support each segment's risks. Operating expenses specifically identifiable to a particular segment are allocated to that segment as incurred. Operating expenses not identifiable to a specific segment that are incurred in connection with the generation of segment revenues are generally allocated based upon the segment's historical percentage of general and administrative expenses.

Adjusted Operating Income

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

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

- realized investment gains (losses), net, and related charges and adjustments;
- net investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- the contribution to income/loss of divested businesses that have been or will be sold or exited but that did not qualify for "discontinued operations" accounting treatment under U.S. GAAP; and
- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

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

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

Charges that relate to realized investment gains (losses), net, are also excluded from adjusted operating income. The related charges are associated with: policyholder dividends; amortization of deferred policy acquisition costs, value of business acquired ("VOBA"), unearned revenue reserves and deferred sales inducements; interest credited to policyholders' account balances; reserves for future policy benefits; and payments associated with the market value adjustment features related to certain of the annuity products the Company sells. Deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements for certain products are amortized based on estimated gross profits, which include net realized investment gains and losses on the underlying invested assets including certain portions of the net realized investment gains and losses related to the embedded derivatives and related hedging positions associated with the living benefit features of certain products. The related charge for these items represents the portion of this amortization associated with net realized investment gains and losses. The related charges for policyholder dividends and interest credited to policyholders' account balances relate to certain foreign life policies and certain domestic group life policies, respectively, that pass back certain realized investment gains and losses to the policyholder. Prior to its final payment in the second quarter of 2010, the related charges associated with policyholder dividends also included a percentage of the net increase in the fair value of specified assets included in Gibraltar Life's reorganization plan that was paid as a special dividend to Gibraltar Life policyholders. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment. Certain of the Company's annuity products contain a market value adjustment feature that

22. SEGMENT INFORMATION *(continued)*

requires the Company to pay to the contractholder or entitles the Company to receive from the contractholder, upon surrender, a market value adjustment based on the crediting rates on the contract surrendered compared to crediting rates on newly issued contracts or based on an index rate at the time of purchase compared to an index rate at time of surrender, as applicable. These payments mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets. The related charge represents the payments or receipts associated with these market value adjustment features.

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

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

Adjusted operating income of the International Insurance segment reflects the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment's non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment's U.S. dollar-equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP and, as noted above, all resulting profits or losses from such contracts are included in "Realized investment gains (losses), net." When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income (net losses of $175 million, $93 million, and $36 million for the years ended December 31, 2011, 2010 and 2009, respectively). As of December 31, 2011 and 2010, the fair value of open contracts used for this purpose were net liabilities of $184 million and $252 million, respectively.

The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the derivative contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in "Realized investment gains (losses), net." However, the periodic swap settlements, as well as other derivative related yield adjustments, are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses recorded within "Realized investment gains (losses), net" are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Adjusted operating income includes net gains of $259 million, $243 million and $167 million for the years ended December 31, 2011, 2010 and 2009, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $50 million, $35 million and $26 million for the years ended December 31, 2011, 2010 and 2009, respectively, related to certain derivative contracts that were terminated or offset in prior periods. The table below reflects the total deferred gain (loss) as of December 31, 2011 related to certain derivative contracts that were terminated or offset in prior periods that will be recognized in adjusted operating income in future periods for each segment, as well as the weighted average period over which these deferred amounts will be recognized.

	Deferred Amount	Weighted Average Period
	(in millions)	(in years)
Segment:		
International Insurance	$657	29
Asset Management	21	8
Corporate and Other	(39)	6
Total deferred gain (loss)	$639	

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

The Company conducts certain activities for which "Realized investment gains (losses), net" are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company's Asset Management segment. For example, Asset Management's strategic investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company's managed funds and structured products. The "Realized investment gains (losses), net" associated with the sale of these strategic investments, as well as related derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the "Realized investment gains (losses), net" associated with loans originated by the Company's commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business

22. SEGMENT INFORMATION *(continued)*

and included in adjusted operating income. Net realized investment gains of $154 million and $18 million, and losses of $273 million for the years ended December 31, 2011, 2010 and 2009, respectively, related to these and other businesses were reflected as an adjustment to "Realized investment gains (losses), net."

The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in "Other trading account assets, at fair value" on the Company's statements of financial position. Realized and unrealized gains and losses for these investments are recorded in "Asset management fees and other income," and interest and dividend income for these investments is recorded in "Net investment income." Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments, which is recorded within "Asset management fees and other income," is excluded from adjusted operating income and is reflected as an adjustment to "Realized investment gains (losses), net." In addition, prior to the Company's repayment of the obligation in 2010, the secured financing received from the Federal Reserve under TALF was reflected within "Long-term debt," and carried at fair value under the fair value option under authoritative guidance around fair value. The changes in the fair value of this debt, which were recorded within "Asset management fees and other income," was also excluded from adjusted operating income and reflected as an adjustment to "Realized investment gains (losses), net." This is consistent with the securities purchased with the proceeds from this financing, which were carried at fair value and included in "Other trading account assets, at fair value" as discussed above. The net impact of these adjustments was to exclude from adjusted operating income net losses of $81 million and net gains of $10 million and $55 million, for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in "Asset management fees and other income." To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company's capital funding strategies for its international subsidiaries, the change in value included in "Asset management fees and other income" is excluded from adjusted operating income and is reflected as an adjustment to "Realized investment gains (losses), net." The net impact of this adjustment was to exclude from adjusted operating income net gains of $965 million, $21 million and $168 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company records an adjustment for non-performance risk that relates to the uncollateralized portion of certain derivative contracts between a subsidiary of the Company and third-parties. Consistent with the exclusion of realized investment gains and losses with respect to the mark-to-market on other derivatives, the impact of the non-performance risk is excluded from adjusted operating income and is reflected as an adjustment to "Realized investment gains (losses), net." The net impact of the non-performance risk and certain other adjustments was to exclude from adjusted operating income net losses of $44 million and $4 million, and net gains of $34 million for the years ended December 31, 2011, 2010 and 2009, respectively.

In connection with the settlement of disputes arising out of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc., the Company recorded additional losses of $65 million in 2011 related to a portion of its counterparty exposure on derivative transactions it had previously held with Lehman Brothers and its affiliates. These losses are recorded within "Asset management fees and other income" within the Company's Corporate and Other operations and are excluded from adjusted operating income as a related adjustment to "Realized investment gains (losses), net," which is consistent with the adjusted operating income treatment of similar credit-related losses that are recorded within "Realized investment gains (losses), net." Any subsequent recoveries arising from this settlement will also be excluded from adjusted operating income. There were no adjustments for the years ended December 31, 2010 or 2009.

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

Adjusted operating income excludes net investment gains and losses on TAASIL. 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." Adjusted operating income also excludes net investment gains and losses on related derivatives and

22. SEGMENT INFORMATION *(continued)*

commercial mortgage and other loans reported in "Realized investment gains (losses), net". The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread the Company earns on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that are expected to ultimately accrue to the contractholders.

Divested businesses. The contribution to income/loss of divested businesses that have been or will be sold or exited, but that did not qualify for "discontinued operations" accounting treatment under U.S. GAAP, are excluded from adjusted operating income as the results of divested businesses are not relevant to understanding the Company's ongoing operating results. For the year ended December 31, 2009 divested businesses includes a $2.247 billion pre-tax gain from the sale of the Company's interest in its retail securities brokerage joint venture with Wachovia, and $104 million of certain related one-time compensation and other costs.

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

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

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

	Years Ended December 31,		
	2011	2010	2009
	(in millions)		
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:			
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 Operations	(1,127)	(923)	(779)
Total Corporate and Other	(1,127)	(923)	(779)
Adjusted Operating Income before income taxes for 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 (loss) 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 and equity in earnings of operating joint ventures for Closed Block Business	197	725	(480)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 5,117	$4,392	$ 1,524

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

22. SEGMENT INFORMATION *(continued)*

The summary below presents certain financial information for the Company's reportable segments:

	Year Ended December 31, 2011						
	Revenues	Net Investment Income	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
	(in millions)						
Financial Services Businesses:							
Individual Annuities	$ 3,638	$ 790	$ 476	$ 570	$ 0	$ 112	$ 606
Retirement	4,871	3,178	1,594	1,715	0	14	47
Asset Management	2,311	119	0	0	0	13	25
Total U.S. Retirement Solutions and Investment Management Division	10,820	4,087	2,070	2,285	0	139	678
Individual Life	2,900	978	1,115	299	29	214	174
Group Insurance	6,068	686	4,825	228	0	0	26
Total U.S. Individual Life and Group Insurance Division	8,968	1,664	5,940	527	29	214	200
International Insurance	19,788	3,777	11,963	978	122	1	1,141
Total International Insurance Division	19,788	3,777	11,963	978	122	1	1,141
Corporate Operations	(179)	389	146	(34)	0	810	(41)
Total Corporate and Other	(179)	389	146	(34)	0	810	(41)
Total	39,397	9,917	20,119	3,756	151	1,164	1,978
Reconciling items:							
Realized investment gains (losses), net, and related adjustments	2,515	(28)	0	0	0	0	0
Charges related to realized investment gains (losses), net	(108)	0	0	466	1	0	1,260
Investment gains (losses) on trading account assets supporting insurance liabilities, net	223	0	0	0	0	0	0
Change in experience-rated contractholder liabilities due to assets value changes	0	0	0	123	0	0	0
Divested businesses	266	21	13	0	0	0	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(263)	0	0	0	0	0	0
Total Financial Services Businesses	42,030	9,910	20,132	4,345	152	1,164	3,238
Closed Block Business	7,015	3,214	3,482	139	2,571	148	54
Total per Consolidated Financial Statements	$49,045	$13,124	$23,614	$4,484	$2,723	$1,312	$3,292

22. SEGMENT INFORMATION *(continued)*

	Year Ended December 31, 2010						
	Revenues	Net Investment Income	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
				(in millions)			
Financial Services Businesses:							
Individual Annuities	$ 3,195	$ 878	$ 291	$ 581	$ 0	$ 66	$ 260
Retirement	5,183	3,238	1,848	1,834	0	17	20
Asset Management	1,888	121	0	0	0	13	25
Total U.S. Retirement Solutions and Investment Management Division	10,266	4,237	2,139	2,415	0	96	305
Individual Life	2,815	903	1,090	284	30	162	218
Group Insurance	5,458	668	4,258	227	0	0	25
Total U.S. Individual Life and Group Insurance Division	8,273	1,571	5,348	511	30	162	243
International Insurance	12,220	2,469	7,223	562	92	3	855
Total International Insurance Division	12,220	2,469	7,223	562	92	3	855
Corporate Operations	(229)	321	45	(70)	0	788	(35)
Total Corporate and Other	(229)	321	45	(70)	0	788	(35)
Total	30,530	8,598	14,755	3,418	122	1,049	1,368
Reconciling items:							
Realized investment gains (losses), net, and related adjustments	116	(6)	0	0	0	0	0
Charges related to realized investment gains (losses), net	(159)	0	(3)	20	(4)	0	2
Investment gains (losses) on trading account assets supporting insurance liabilities, net	501	0	0	0	0	0	0
Change in experience-rated contractholder liabilities due to assets value changes	0	0	0	631	0	0	0
Divested businesses	235	26	21	0	0	0	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(109)	0	0	0	0	0	0
Total Financial Services Businesses	31,114	8,618	14,773	4,069	118	1,049	1,370
Closed Block Business	7,086	3,247	3,512	140	2,071	148	67
Total per Consolidated Financial Statements	$38,200	$11,865	$18,285	$4,209	$2,189	$1,197	$1,437

22. SEGMENT INFORMATION *(continued)*

	Year Ended December 31, 2009						
	Revenues	Net Investment Income	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
				(in millions)			
Financial Services Businesses:							
Individual Annuities	$ 2,515	$ 979	$ 89	$ 618	$ 0	$ 13	$ 243
Retirement	4,659	3,309	1,380	1,907	0	29	24
Asset Management	1,257	90	0	0	0	26	18
Total U.S. Retirement Solutions and Investment Management Division	8,431	4,378	1,469	2,525	0	68	285
Individual Life	2,768	809	1,007	263	35	181	186
Group Insurance	5,285	623	4,016	229	0	0	22
Total U.S. Individual Life and Group Insurance Division	8,053	1,432	5,023	492	35	181	208
International Insurance	10,592	2,172	6,057	480	82	4	798
Total International Insurance Division	10,592	2,172	6,057	480	82	4	798
Corporate Operations	(253)	237	25	(121)	0	702	(25)
Total Corporate and Other	(253)	237	25	(121)	0	702	(25)
Total	26,823	8,219	12,574	3,376	117	955	1,266
Reconciling items:							
Realized investment gains (losses), net, and related adjustments	(1,216)	0	0	0	0	0	0
Charges related to realized investment gains (losses), net	(200)	0	(9)	68	(41)	0	207
Investment gains (losses) on trading account assets supporting insurance liabilities, net	1,601	0	0	0	0	0	0
Change in experience-rated contractholder liabilities due to assets value changes	0	0	0	899	0	0	0
Divested businesses	2,457	(7)	19	0	0	0	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(2,330)	0	0	0	0	0	0
Total Financial Services Businesses	27,135	8,212	12,584	4,343	76	955	1,473
Closed Block Business	5,245	3,178	3,762	141	1,222	146	21
Total per Consolidated Financial Statements	$32,380	$11,390	$16,346	$4,484	$1,298	$1,101	$1,494

22. SEGMENT INFORMATION *(continued)*

Revenues, calculated in accordance with U.S. GAAP, for the years ended December 31, include the following associated with the Company's foreign and domestic operations:

	2011	2010	2009
		(in millions)	
Domestic operations	$28,944	$26,488	$22,487
Foreign operations, total	20,101	11,712	9,893
Foreign operations, Japan	17,563	9,456	8,083
Foreign operations, Korea	1,336	1,278	1,107

The Asset Management segment revenues include intersegment revenues, primarily consisting of asset-based management and administration fees, for the years ended December 31, as follows:

	2011	2010	2009
		(in millions)	
Asset Management segment intersegment revenues	$481	$399	$347

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

The summary below presents total assets for the Company's reportable segments at December 31,

	Assets	
	2011	2010
	(in millions)	
Individual Annuities	$123,674	$108,879
Retirement	132,020	130,854
Asset Management	37,308	32,920
Total U.S. Retirement Solutions and Investment Management Division	293,002	272,653
Individual Life	44,088	41,131
Group Insurance	37,033	35,490
Total U.S. Individual Life and Group Insurance Division	81,121	76,621
International Insurance	171,492	103,097
Total International Insurance Division	171,492	103,097
Corporate Operations	9,456	19,775
Total Corporate and Other	9,456	19,775
Total Financial Services Businesses	555,071	472,146
Closed Block Business	69,450	67,708
Total	$624,521	$539,854

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments and Guarantees

The Company occupies leased office space in many locations under various long-term leases and has entered into numerous leases covering the long-term use of computers and other equipment. Rental expense, net of sub-lease income, incurred for the years ended December 31, 2011, 2010 and 2009 was $280 million, $199 million and $195 million, respectively.

The following table presents, at December 31, 2011, the Company's future minimum lease payments under non-cancelable operating leases along with associated sub-lease income:

	Operating Leases	Sub-lease Income
	(in millions)	
2012	152	(16)
2013	136	(14)
2014	121	(13)
2015	76	0
2016	58	0
2017 and thereafter	143	0
Total	$686	$(43)

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS *(continued)*

Occasionally, for business reasons, the Company may exit certain non-cancelable operating leases prior to their expiration. In these instances, the Company's policy is to accrue, at the time it ceases to use the property being leased, the future rental expense net of any expected sub-lease income, and to release this reserve over the remaining commitment period. Of the total non-cancelable operating leases and sub-lease income amounts listed above, $24 million and $35 million, respectively, has been accrued at December 31, 2011.

Commercial Mortgage Loan Commitments

	As of December 31, 2011
	(in millions)
Total outstanding mortgage loan commitments	$2,139
Portion of commitment where prearrangement to sell to investor exists	$1,199

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to governmental sponsored entities as discussed below, after the Company funds the loan.

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	As of December 31, 2011
	(in millions)
Expected to be funded from the general account and other operations outside the separate accounts(1)	$4,414
Expected to be funded from separate accounts	$1,159
Portion of separate account commitments with recourse to Prudential Insurance	$ 397

(1) Includes a remaining commitment of $385 million related to the Company's agreement to co-invest with the Fosun Group (Fosun) in a private equity fund, managed by Fosun, for the Chinese marketplace.

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts. Some of the separate account commitments have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due.

Transitional Financing Facilities Issued in Connection with Sale of PRERS

	As of December 31, 2011
	(in millions)
Total remaining available credit lines	$186

In connection with the sale of the real estate brokerage franchise and relocation business, the Company has agreed to provide the buyer with transitional financing for the transferred relocation services business. The Company provided two six month facilities with a total of $275 million of available financing and one three year facility with $155 million of available financing. The effective date of these agreements was December 6, 2011.

Guarantees of Investee Debt

	As of December 31, 2011
	(in millions)
Total guarantees of debt issued by entities in which the separate accounts have invested	$2,433
Amount of above guarantee that is limited to separate account assets	$2,364
Accrued liability associated with guarantee	$ 0

A number of guarantees provided by the Company relate to real estate investments held in its separate accounts, in which entities that the separate account has invested in have borrowed funds, and the Company has guaranteed their obligations. The Company provides these guarantees to assist these entities in obtaining financing. The Company's maximum potential exposure under these guarantees is mostly limited to the assets of the separate account. The exposure that is not limited to the separate account assets relates mostly to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next fourteen years. At December 31, 2011, the Company's assessment is that it is unlikely payments will be required. Any payments that may become required under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide rights to obtain the underlying collateral.

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS *(continued)*

Indemnification of Securities Lending Transactions

	As of December 31, 2011
	(in millions)
Indemnification provided to mutual fund and separate account clients for securities lending	$13,950
Fair value of related collateral associated with above indemnifications	$14,307
Accrued liability associated with guarantee	$ 0

In the normal course of business, the Company may facilitate securities lending transactions on behalf of mutual funds and separate accounts for which the Company is the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the mutual funds or separate accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with the securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the mutual fund or separate account at the inception of the loan equal to or greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 21, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Global Commodities Business

	As of December 31, 2011
	(in millions)
Exposure under the guarantees	$99
Accrued liability associated with guarantees	$ 0

In conjunction with the sale of the Global Commodities Business, the Company entered into a guarantees transition and collateral agreement with Jefferies, pursuant to which the Company agreed to keep these guarantees outstanding for a period of 18 months following the closing, including with respect to business conducted by the transferred entities with beneficiaries of these guarantees subsequent to the closing date. Jefferies has agreed to indemnify the Company for any amounts payable under the guarantees and, under certain conditions, provide collateral for such obligation. As of December 31, 2011, no collateral has been provided by Jefferies.

Guarantees of Asset Values

	As of December 31, 2011
	(in millions)
Guaranteed value of third parties assets	$47,017
Fair value of collateral supporting these assets	$49,044
Asset associated with guarantee, carried at fair value	$ 2

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Company's balance sheet.

Guarantees of Credit Enhancements

	As of December 31, 2011
	(in millions)
Guarantees of credit enhancements of debt instruments associated with commercial real estate assets	$221
Fair value of properties and associated tax credits that secure the guarantee	$290
Accrued liability associated with guarantee	$ 0

The Company arranges for credit enhancements of certain debt instruments that provide financing primarily for affordable multi-family real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt instruments. The remaining contractual maturities for these guarantees are up to fifteen years. The Company's obligations to reimburse required credit enhancement payments are secured by mortgages on the related real estate. The Company receives certain ongoing fees for providing these enhancement arrangements and anticipates the extinguishment of its obligation under these enhancements prior to maturity through the aggregation and transfer of its positions to a substitute enhancement provider.

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS *(continued)*

Indemnification of Serviced Mortgage Loans

	As of December 31, 2011
	(in millions)
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	$1,088
First-loss exposure portion of above	$ 353
Accrued liability associated with guarantees	$ 21

As part of the commercial mortgage activities of the Company's Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company's percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company services $8,477 million of mortgages subject to these loss-sharing arrangements as of December 31, 2011, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of December 31, 2011, these mortgages had an average debt service coverage ratio of 1.75 times and an average loan-to-value ratio of 68%. The Company's total share of losses related to indemnifications that were settled was $1 million, $3 million, and $0 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Contingent Consideration

	As of December 31, 2011
	(in millions)
Maximum potential contingent consideration associated with acquisitions	$57

In connection with certain acquisitions, the Company has agreed to pay additional consideration in future periods, contingent upon the attainment by the acquired entity of defined operating objectives. These arrangements will be resolved over the following two years. Any such payments would result in increases in intangible assets, such as goodwill.

Other Guarantees

	As of December 31, 2011
	(in millions)
Other guarantees where amount can be determined	$495
Accrued liability for other guarantees and indemnifications	$ 13

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above are $300 million of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liabilities identified above do not include retained liabilities associated with sold businesses.

Contingent Liabilities

On an ongoing basis, the Company's internal supervisory and control functions review the quality of sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. From time to time, this review process results in the discovery of product administration, servicing or other errors, including errors relating to the timing or amount of payments or contract values due to customers. In certain cases, if appropriate, the Company may offer customers remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see "Litigation and Regulatory Matters" below.

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS *(continued)*

It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company's businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either 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. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

Individual Life and Group Insurance

In January 2012, a *qui tam* action on behalf of the State of Illinois, *Total Asset Recovery Services v. Met Life Inc, et al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Holdings, LLC*, filed in the Circuit Court of Cook County, Illinois, was served on the Company. The complaint alleges that the Company failed to escheat life insurance proceeds to the State of Illinois in violation of the Illinois False Claims Whistleblower Reward and Protection Act and seeks injunctive relief, compensatory damages, civil penalties, treble damages, prejudgment interest, attorneys' fees and costs.

In January 2012, a Global Resolution Agreement entered into by the Company and a third party auditor became effective upon its acceptance by the unclaimed property departments of 20 states and jurisdictions. Under the terms of the Global Resolution Agreement, the third party auditor acting on behalf of the signatory states will compare expanded matching criteria to the Social Security Master Death File ("SSMDF") to identify deceased insureds and contract holders where a valid claim has not been made. In February 2012, a Regulatory Settlement Agreement entered into by the Company to resolve a multi-state market conduct examination regarding its adherence to state claim settlement practices became effective upon its acceptance by the insurance departments of 20 states and jurisdictions. The Regulatory Settlement Agreement applies prospectively and requires the Company to adopt and implement additional procedures comparing its records to the SSMDF to identify unclaimed death benefits and proscribes procedures for identifying and locating beneficiaries once deaths are identified. Other jurisdictions that are not signatories to the Regulatory Settlement Agreement are considering proposals that would apply prospectively and require life insurance companies to take additional steps to identify unreported deceased policy and contract holders. These prospective changes and any escheatable property identified as a result of the audits and inquiries could result in: (1) additional payments of previously unclaimed death benefits; (2) the payment of abandoned funds to U.S. jurisdictions; and (3) changes in the Company's practices and procedures for the identification of escheatable funds and beneficiaries, which would impact claim payments and reserves, among other consequences.

The Company is one of several companies subpoenaed by the New York Attorney General regarding its unclaimed property procedures. Additionally, the New York Department of Insurance ("NYDOI") has requested that 172 life insurers (including the Company) provide data to the NYDOI regarding use of the SSMDF. The New York Office of Unclaimed Funds recently notified the Company that it intends to conduct an audit of the Company's compliance with New York's unclaimed property laws. The Minnesota Attorney General has also requested information regarding the Company's use of the SSMDF and its claim handling procedures and the Company is one of several companies subpoenaed by the Minnesota Department of Commerce, Insurance Division. In February 2012, the Massachusetts Office of the Attorney General requested information regarding the Company's unclaimed property procedures.

From July 2010 to December 2010, four purported nationwide class actions were filed challenging the use of retained asset accounts to settle death benefit claims of beneficiaries of a group life insurance contract owned by the United States Department of Veterans Affairs ("VA Contract") that covers the lives of members and veterans of the U.S. armed forces. In 2011, the cases were consolidated in the United States District Court for the District of Massachusetts by the Judicial Panel for Multi-District Litigation as *In re Prudential Insurance Company of America SGLI/VGLI Contract Litigation.* The consolidated complaint alleges that the use of the retained assets accounts that earn interest and are available to be withdrawn by the beneficiary, in whole or in part, at any time, to settle death benefit claims is in violation of federal law, and asserts claims of breach of contract, breaches of fiduciary duty and the duty of good faith and fair dealing, fraud and unjust enrichment and seeks compensatory and punitive damages, disgorgement of profits, equitable relief and pre and post-judgment interest. In March 2011, the motion to dismiss was denied. In January 2012, plaintiffs filed a motion to certify the class.

In September 2010, *Huffman v. The Prudential Insurance Company*, a purported nationwide class action brought on behalf of beneficiaries of group life insurance contracts owned by ERISA-governed employee welfare benefit plans was filed in the United States District Court for the Eastern District of Pennsylvania, challenging the use of retained asset accounts in employee welfare benefit plans to settle death benefit claims as a violation of ERISA and seeking injunctive relief and disgorgement of profits. In July 2011, the Company's motion for judgment on the pleadings was denied.

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS *(continued)*

In January 2011, a purported state-wide class action, *Garcia v. The Prudential Insurance Company of America* was dismissed by the Second Judicial District Court, Washoe County, Nevada. The complaint was brought on behalf of Nevada beneficiaries of individual life insurance policies for which, unless the beneficiaries elected another settlement method, death benefits were placed in retained asset accounts. The complaint alleges that by failing to disclose material information about the accounts, the Company wrongfully delayed payment and improperly retained undisclosed profits, and seeks damages, injunctive relief, attorneys' fees and pre and post-judgment interest. In February 2011, plaintiff appealed the dismissal to the Nevada Supreme Court. As previously reported, in December 2009, an earlier purported nationwide class action raising substantially similar allegations brought by the same plaintiff in the United States District Court for the District of New Jersey, *Garcia v. Prudential Insurance Company of America*, was dismissed. In December 2010, a purported state-wide class action complaint, *Phillips v. Prudential Financial, Inc*., was filed in state court and removed to the United States District Court for the Southern District of Illinois. The complaint makes allegations under Illinois law, substantially similar to the *Garcia* cases, on behalf of a class of Illinois residents whose death benefit claims were settled by retained assets accounts. In March 2011, the complaint was amended to drop the Company as a defendant and add Pruco Life Insurance Company as a defendant and is now captioned *Phillips v. Prudential Insurance and Pruco Life Insurance Company*. In November 2011, the complaint was dismissed. In December 2011, plaintiffs appealed the dismissal.

In July 2010, the Company, along with other life insurance industry participants, received a formal request for information from the State of New York Attorney General's Office in connection with its investigation into industry practices relating to the use of retained asset accounts. In August 2010, the Company received a similar request for information from the State of Connecticut Attorney General's Office. The Company is cooperating with these investigations. The Company has also been contacted by state insurance regulators and other governmental entities, including the U.S. Department of Veterans Affairs and Congressional committees regarding retained asset accounts. These matters may result in additional investigations, information requests, claims, hearings, litigation and adverse publicity.

In February 2011, a fifth amended complaint was filed in the United States District Court for the District of New Jersey in *Clark v. Prudential Insurance Company*. The complaint brought on behalf of a purported class of California, Indiana, Ohio and Texas residents who purchased individual health insurance policies alleges that Prudential Insurance failed to disclose that it had ceased selling this type of policy in 1981 and that, as a result, premiums would increase significantly. The complaint alleges claims of fraudulent misrepresentation and omission, breach of the duty of good faith and fair dealing, and California's Unfair Competition Law and seeks compensatory and punitive damages. The matter was originally filed in 2008 and certain of the claims in the first four complaints were dismissed.

In April 2009, *Schultz v. The Prudential Insurance Company of America,* a purported nationwide class action on behalf of participants claiming disability benefits under certain employee benefit plans insured by Prudential, was filed in the United States District Court for the Northern District of Illinois. As amended, the complaint alleges that Prudential Insurance and the defendant plans violated ERISA by characterizing family Social Security benefits as "loss of time" benefits that were offset against Prudential contract benefits. The complaint seeks a declaratory judgment that the offsets were improper, damages and other relief. The Company has agreed to indemnify the named defendant plans. In April 2011, *Schultz* was dismissed with prejudice, and plaintiffs appealed to the Seventh Circuit Court of Appeals. The appeal has been argued and is submitted for decision.

From November 2002 to March 2005, eleven separate complaints were filed against the Company and the law firm of Leeds Morelli & Brown in New Jersey state court and in the New Jersey Superior Court, Essex County as *Lederman v. Prudential Financial, Inc., et al.* The complaints allege that an alternative dispute resolution agreement entered into among Prudential Insurance, over 235 claimants who are current and former Prudential Insurance employees, and Leeds Morelli & Brown (the law firm representing the claimants) was illegal and that Prudential Insurance conspired with Leeds Morelli & Brown to commit fraud, malpractice, breach of contract, and violate racketeering laws by advancing legal fees to the law firm with the purpose of limiting Prudential's liability to the claimants. In February 2010, the New Jersey Supreme Court assigned the cases for centralized case management to the Superior Court, Bergen County. The Company participated in a court-ordered mediation that resulted in a settlement involving 193 of the remaining 235 plaintiffs. The amounts paid to the 193 plaintiffs were within existing reserves for this matter. The remaining 42 plaintiffs continue to pursue their individual lawsuits, and have filed offers of judgment totaling approximately $90 million. In February 2012, the court granted summary judgment against two of the remaining plaintiffs.

Retirement Solutions and Investment Management

In October 2007, Prudential Retirement Insurance and Annuity Co. ("PRIAC") filed an action in the United States District Court for the Southern District of New York, *Prudential Retirement Insurance & Annuity Co. v. State Street Global Advisors,* in PRIAC's fiduciary capacity and on behalf of certain defined benefit and defined contribution plan clients of PRIAC, against an unaffiliated asset manager, State Street Global Advisors ("SSgA") and SSgA's affiliate, State Street Bank and Trust Company ("State Street"). This action seeks, among other relief, restitution of certain losses attributable to certain investment funds sold by SSgA as to which PRIAC believes SSgA employed investment strategies and practices that were misrepresented by SSgA and failed to exercise the standard of care of a prudent investment manager. Given the unusual circumstances surrounding the management of these SSgA funds and in order to protect the interests of the affected plans and their participants while PRIAC pursues these remedies, PRIAC implemented a process under which affected plan clients that authorized PRIAC to proceed on their behalf have received payments from funds provided by PRIAC for the losses referred to above. The Company's consolidated financial statements, and the results of the Retirement segment included in the

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS *(continued)*

Company's U.S. Retirement Solutions and Investment Management Division, for the year ended December 31, 2007 include a pre-tax charge of $82 million, reflecting these payments to plan clients and certain related costs. In September 2008, the United States District Court for the Southern District of New York denied the State Street defendants' motion to dismiss claims for damages and other relief under Section 502(a)(2) of ERISA, but dismissed the claims for equitable relief under Section 502(a)(3) of ERISA. In October 2008, defendants answered the complaint and asserted counterclaims for contribution and indemnification, defamation and violations of Massachusetts' unfair and deceptive trade practices law. In February 2010, State Street reached a settlement with the SEC over charges that it misled investors about their exposure to sub-prime investments, resulting in significant investor losses in mid-2007. Under the settlement, State Street paid approximately $313 million in disgorgement, pre-judgment interest, penalty and compensation into a Fair Fund that was distributed to injured investors and consequently, State Street paid PRIAC, for deposit into its separate accounts, approximately $52.5 million. By the terms of the settlement, State Street's payment to PRIAC does not resolve any claims PRIAC has against State Street or SSgA in connection with the losses in the investment funds SSgA managed, and the penalty component of State Street's SEC settlement cannot be used to offset or reduce compensatory damages in the action against State Street and SSgA. In June 2010, PRIAC moved for partial summary judgment on State Street's counterclaims. At the same time, State Street moved for summary judgment on PRIAC's complaint. In March 2011, the district court denied State Street's motion for summary judgment and denied in part and granted in part PRIAC's motion for partial summary judgment on State Street's counterclaims. In October 2011, the court held a bench trial to determine whether State Street had breached its fiduciary duty to PRIAC's plan clients. In February 2012, the court issued a decision holding that State Street breached its fiduciary duty to the plans under ERISA to manage the investment funds prudently and to diversify them. The court held that PRIAC did not prove that State Street breached its duty of loyalty to the plans under ERISA. The court held that State Street's breaches caused the plans' losses in the amount of $76.7 million and, after crediting State Street for an earlier payment, awarded $28.1 million in damages in addition to the amount previously recovered as a result of the SEC settlement. The court has not yet ruled on State Street's counterclaims and has reserved judgment on PRIAC's requests for pre-judgment interest and attorney's fees.

Other Matters

In October 2006, a purported class action lawsuit, *Bouder v. Prudential Financial, Inc. and Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey, claiming that Prudential failed to pay overtime to insurance agents in violation of federal and Pennsylvania law, and that improper deductions were made from these agents' wages in violation of state law. The complaint seeks back overtime pay and statutory damages, recovery of improper deductions, interest, and attorneys' fees. In March 2008, the court conditionally certified a nationwide class on the federal overtime claim. Separately, in March 2008, a purported nationwide class action lawsuit was filed in the United States District Court for the Southern District of California, *Wang v. Prudential Financial, Inc. and Prudential Insurance,* claiming that the Company failed to pay its agents overtime and provide other benefits in violation of California and federal law and seeking compensatory and punitive damages in unspecified amounts. In September 2008, *Wang* was transferred to the United States District Court for the District of New Jersey and consolidated with the *Bouder* matter. Subsequent amendments to the complaint have resulted in additional allegations involving purported violations of an additional nine states' overtime and wage payment laws. In February 2010, Prudential moved to decertify the federal overtime class that had been conditionally certified in March 2008 and moved for summary judgment on the federal overtime claims of the named plaintiffs. In July 2010, plaintiffs filed a motion for class certification of the state law claims. In August 2010, the district court granted Prudential's motion for summary judgment, dismissing the federal overtime claims. The motion for class certification of the state law claims is pending.

Summary

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's 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. 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 the Company's financial position.

24. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended December 31, 2011 and 2010 are summarized in the table below:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share amounts)			
2011				
Total revenues	$10,186	$12,247	$14,917	$11,695
Total benefits and expenses	9,482	11,075	12,583	10,788
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	704	1,172	2,334	907
Income from continuing operations	619	851	1,553	680
Net income	633	867	1,544	694
Less: Income attributable to noncontrolling interests	25	29	10	8
Net income attributable to Prudential Financial, Inc.	608	838	1,534	686
Basic income from continuing operations attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.19	1.67	3.12	1.24
Diluted income from continuing operations attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.17	1.65	3.08	1.23
Basic net income attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.22	1.70	3.10	1.27
Diluted net income attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.20	1.68	3.06	1.26
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share—Class B Stock	5.00	(0.50)	10.50	40.50
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share—Class B Stock	5.00	(0.50)	10.50	40.50
2010				
Total revenues	$ 9,247	$10,987	$ 9,917	$ 8,049
Total benefits and expenses	8,238	9,481	8,167	7,922
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	1,009	1,506	1,750	127
Income from continuing operations	668	1,089	1,240	176
Net income	671	1,104	1,242	189
Less: Income (loss) attributable to noncontrolling interests	(26)	27	(2)	12
Net income attributable to Prudential Financial, Inc.	697	1,077	1,244	177
Basic income from continuing operations attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.16	1.69	2.49	0.42
Diluted income from continuing operations attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.15	1.66	2.46	0.42
Basic net income attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.16	1.72	2.50	0.45
Diluted net income attributable to Prudential Financial, Inc. per share—Common Stock(1)	1.15	1.70	2.46	0.45
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share—Class B Stock	75.50	134.50	33.50	(21.50)
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share—Class B Stock	75.50	134.50	34.00	(21.50)

(1) Quarterly earnings per share amounts may not add to the full year amounts due to the averaging of shares.

Results for the first quarter of 2011 include a pre-tax charge of $95 million related to an out of period adjustment recorded by the Company. The adjustment is related to the amortization of unrealized losses associated with U.S. dollar-denominated collateralized mortgage-backed securities held by the Gibraltar Life Insurance Company, Ltd. consolidated operations (“Gibraltar Life operations”), that were reclassified from available-for-sale to held-to-maturity in December 2008. The adjustment, which had no impact on the carrying value of these securities, resulted from using the contractual maturities of the securities rather than the expected effective duration of the securities as the basis for the amortization of the unrealized losses that existed when the securities were reclassified.

PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Financial Position
December 31, 2011 and 2010 (in millions)

	2011			2010		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities, available-for-sale, at fair value	$208,132	$46,516	$254,648	$149,806	$45,177	$194,983
Fixed maturities, held-to-maturity, at amortized cost	5,107	0	5,107	5,226	0	5,226
Trading account assets supporting insurance liabilities, at fair value	19,481	0	19,481	17,771	0	17,771
Other trading account assets, at fair value	5,228	317	5,545	4,069	156	4,225
Equity securities, available-for-sale, at fair value	4,413	3,122	7,535	4,148	3,593	7,741
Commercial mortgage and other loans	26,391	9,040	35,431	23,324	8,507	31,831
Policy loans	6,263	5,296	11,559	5,290	5,377	10,667
Other long-term investments	5,830	1,990	7,820	4,589	1,582	6,171
Short-term investments	8,593	528	9,121	4,133	1,164	5,297
Total investments	289,438	66,809	356,247	218,356	65,556	283,912
Cash and cash equivalents	13,201	1,050	14,251	12,447	468	12,915
Accrued investment income	2,177	616	2,793	1,734	643	2,377
Deferred policy acquisition costs	16,123	667	16,790	15,672	763	16,435
Other assets	15,752	308	16,060	16,161	278	16,439
Separate account assets	218,380	0	218,380	207,776	0	207,776
TOTAL ASSETS	$555,071	$69,450	$624,521	$472,146	$67,708	$539,854
LIABILITIES AND EQUITY						
LIABILITIES						
Future policy benefits	$119,036	$51,423	$170,459	$ 82,242	$51,632	$133,874
Policyholders' account balances	129,068	5,484	134,552	100,905	5,536	106,441
Policyholders' dividends	286	5,511	5,797	226	3,152	3,378
Securities sold under agreements to repurchase	3,118	3,100	6,218	2,557	3,328	5,885
Cash collateral for loaned securities	2,254	719	2,973	1,614	557	2,171
Income taxes	8,449	(366)	8,083	6,736	(383)	6,353
Short-term debt	2,336	0	2,336	1,982	0	1,982
Long-term debt	22,872	1,750	24,622	21,903	1,750	23,653
Other liabilities	13,034	256	13,290	14,660	753	15,413
Separate account liabilities	218,380	0	218,380	207,776	0	207,776
Total liabilities	518,833	67,877	586,710	440,601	66,325	506,926
COMMITMENTS AND CONTINGENT LIABILITIES						
EQUITY						
Accumulated other comprehensive income	5,418	145	5,563	2,932	46	2,978
Other attributed equity	30,232	1,428	31,660	28,100	1,337	29,437
Total attributed equity	35,650	1,573	37,223	31,032	1,383	32,415
Noncontrolling interests	588	0	588	513	0	513
Total equity	36,238	1,573	37,811	31,545	1,383	32,928
TOTAL LIABILITIES AND EQUITY	$555,071	$69,450	$624,521	$472,146	$67,708	$539,854

See Notes to Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Operations
Years Ended December 31, 2011 and 2010 (in millions)

	2011			2010		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$21,420	$2,918	$24,338	$15,253	$ 3,007	$18,260
Policy charges and fee income	3,924	0	3,924	3,321	0	3,321
Net investment income	9,910	3,214	13,124	8,618	3,247	11,865
Asset management fees and other income	4,790	38	4,828	3,666	38	3,704
Realized investment gains (losses), net						
Other-than-temporary impairments on fixed maturity securities	(1,390)	(812)	(2,202)	(1,937)	(1,079)	(3,016)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	959	708	1,667	1,373	911	2,284
Other realized investment gains (losses), net	2,417	949	3,366	820	962	1,782
Total realized investment gains (losses), net	1,986	845	2,831	256	794	1,050
Total revenues	42,030	7,015	49,045	31,114	7,086	38,200
BENEFITS AND EXPENSES						
Policyholders' benefits	20,132	3,482	23,614	14,773	3,512	18,285
Interest credited to policyholders' account balances	4,345	139	4,484	4,069	140	4,209
Dividends to policyholders	152	2,571	2,723	118	2,071	2,189
Amortization of deferred policy acquisition costs	3,238	54	3,292	1,370	67	1,437
General and administrative expenses	9,243	572	9,815	7,117	571	7,688
Total benefits and expenses	37,110	6,818	43,928	27,447	6,361	33,808
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	4,920	197	5,117	3,667	725	4,392
Income tax expense	1,537	62	1,599	1,058	245	1,303
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	3,383	135	3,518	2,609	480	3,089
Equity in earnings of operating joint ventures, net of taxes	185	0	185	84	0	84
INCOME FROM CONTINUING OPERATIONS	3,568	135	3,703	2,693	480	3,173
Income from discontinued operations, net of taxes	35	0	35	32	1	33
NET INCOME	3,603	135	3,738	2,725	481	3,206
Less: Income attributable to noncontrolling interests	72	0	72	11	0	11
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 3,531	$ 135	$ 3,666	$ 2,714	$ 481	$ 3,195

See Notes to Supplemental Combining Financial Information

Notes to Supplemental Combining Financial Information

1. BASIS OF PRESENTATION

The supplemental combining financial information presents the consolidated financial position and results of operations for Prudential Financial, Inc. and its subsidiaries (together, the "Company"), separately reporting the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses and the Closed Block Business are both fully integrated operations of the Company and are not separate legal entities. The supplemental combining financial information presents the results of the Financial Services Businesses and the Closed Block Business as if they were separate reporting entities and should be read in conjunction with the Consolidated Financial Statements.

The Company has outstanding two classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

The Closed Block Business was established on the date of demutualization and includes the assets and liabilities of the Closed Block (see Note 12 to the Consolidated Financial Statements for a description of the Closed Block). It also includes assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed below and in Note 14 to the Consolidated Financial Statements) and related unamortized debt issuance costs, as well as an interest rate swap related to the IHC debt; and certain other related assets and liabilities. The Financial Services Businesses consist of the U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance divisions and Corporate and Other operations.

2. ALLOCATION OF RESULTS

This supplemental combining financial information reflects the assets, liabilities, revenues and expenses directly attributable to the Financial Services Businesses and the Closed Block Business, as well as allocations deemed reasonable by management in order to fairly present the financial position and results of operations of the Financial Services Businesses and the Closed Block Business on a stand-alone basis. While management considers the allocations utilized to be reasonable, management has the discretion to make operational and financial decisions that may affect the allocation methods and resulting assets, liabilities, revenues and expenses of each business. In addition, management has limited discretion over accounting policies and the appropriate allocation of earnings between the two businesses. The Company is subject to agreements which provide that, in most instances, the Company may not change the allocation methodology or accounting policies for the allocation of earnings between the Financial Services Businesses and Closed Block Business without the prior consent of the Class B Stock holders or IHC debt bond insurer.

General corporate overhead not directly attributable to a specific business that has been incurred in connection with the generation of the businesses' revenues is generally allocated between the Financial Services Businesses and the Closed Block Business based on the general and administrative expenses of each business as a percentage of the total general and administrative expenses for all businesses.

PHLLC has outstanding IHC debt, of which net proceeds of $1.66 billion were allocated to the Financial Services Businesses concurrent with the demutualization on December 18, 2001. The IHC debt is serviced by the cash flows of the Closed Block Business, and the results of the Closed Block Business reflect interest expense associated with the IHC debt.

Income taxes are allocated between the Financial Services Businesses and the Closed Block Business as if they were separate companies based on the taxable income or losses and other tax characterizations of each business. If a business generates benefits, such as net operating losses, it is entitled to record such tax benefits to the extent they are expected to be utilized on a consolidated basis.

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 holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

The results of the Financial Services Businesses are subject to certain risks pertaining to the Closed Block. These include any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, the cost of indemnifying the investors with respect to certain matters will be borne by the Financial Services Businesses.

MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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.

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.

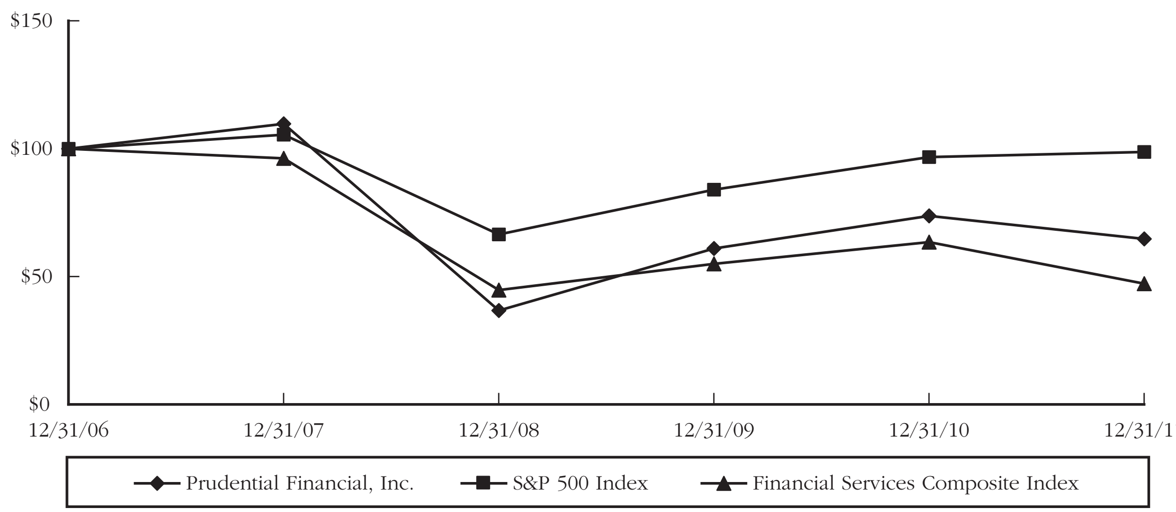
For additional information about our exchangeable surplus notes see Note 14 to the Consolidated Financial Statements.

PERFORMANCE GRAPH

The following graph, which covers the period from the closing price on December 31, 2006 through the closing price on December 31, 2011, compares the cumulative total shareholder return on Prudential Financial's Common Stock with the cumulative total shareholder return on (i) the Standard & Poor's ("S&P") 500 Index, and (ii) a Financial Services Composite Index, which is the average of the S&P 500 Life & Health Insurance and S&P 500 Diversified Financials indices. The figures presented below assume the reinvestment of all dividends into shares of common stock and an initial investment of $100 at the closing prices on December 31, 2006.

	ANNUAL RETURN PERCENTAGE Years Ending				
Company / Index	**Dec07**	**Dec08**	**Dec09**	**Dec10**	**Dec11**
Prudential Financial, Inc	9.69	-66.61	66.75	20.66	-12.19
S&P 500 Index	5.49	-37.00	26.46	15.06	2.11
Financial Services Composite Index	-3.81	-53.47	22.98	15.17	-25.37

Comparison of Cumulative Total Shareholder Return



		INDEXED RETURNS Years Ending				
Company / Index	**Base Period 31 Dec 06**	**31 Dec 07**	**31 Dec 08**	**31 Dec 09**	**31 Dec 10**	**31 Dec 11**
Prudential Financial, Inc.	**100**	**109.69**	**36.63**	**61.08**	**73.70**	**64.72**
S&P 500 Index	**100**	**105.49**	**66.46**	**84.05**	**96.71**	**98.76**
Financial Services Composite Index	**100**	**96.19**	**44.76**	**55.04**	**63.39**	**47.31**

FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Annual Report, 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 words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement, with regard to variable annuity or other product guarantees; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for retirement expense; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the 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 Prudential Financial's 2011 Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

Prudential officers and directors (as of March 2, 2012)

EXECUTIVE OFFICERS

John R. Strangfeld
Chairman of the Board, Chief Executive Officer and President

Mark B. Grier
Vice Chairman

Edward P. Baird
Executive Vice President and Chief Operating Officer, International Businesses

Richard J. Carbone
Executive Vice President and Chief Financial Officer

Charles F. Lowrey
Executive Vice President and Chief Operating Officer, U.S. Businesses

Susan L. Blount
Senior Vice President and General Counsel

Helen M. Galt
Senior Vice President, Company Actuary and Chief Risk Officer

Barbara G. Koster
Senior Vice President, Operations and Systems, and Chief Information Officer

Sharon C. Taylor
Senior Vice President, Human Resources

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Mark B. Grier
Vice Chairman, Prudential Financial, Inc.

Constance J. Horner
Former Guest Scholar at The Brookings Institution and Former Assistant to the President of the United States

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Chief Financial Officer, MasterCard Worldwide

Karl J. Krapek
Co-Founder, The Keystone Companies

Christine A. Poon
Dean and John W. Berry, Sr., Chair in Business, Fisher College of Business at The Ohio State University

John R. Strangfeld
Chairman of the Board, Chief Executive Officer and President, Prudential Financial, Inc.

James A. Unruh
Founding Principal, Alerion Capital Group, LLC

Shareholder information

Corporate Office
Prudential Financial, Inc.
751 Broad Street, Newark, NJ 07102
973-802-6000

Stock Exchange Listing
The Common Stock of Prudential Financial, Inc. is traded on the New York Stock Exchange under the symbol "PRU."

Shareholder Services at Computershare
Computershare Trust Company, N.A., the transfer agent for Prudential Financial, Inc., can assist registered shareholders with a variety of services, including:

- Convenient liquidation of shares
- Transferring shares from a deceased shareholder to another owner
- Changing the ownership of your shares
- Change of address
- Direct deposit of dividends
- Electronic delivery of annual reports and proxy statements

For more information, contact Computershare directly:

Online: www.computershare.com/investor

By phone: Customer Service Representatives are available Monday to Friday from 8:30 a.m. to 6:00 p.m. (ET)

- Within the United States at 800-305-9404
  An Interactive Voice Response System is also available 24 hours a day, 7 days a week
- Outside the United States at 732-512-3782

By mail: Computershare Trust Company, N.A.
P.O. Box 43033, Providence, RI 02940-3033

Did you know you can also transfer shares registered at Computershare to your broker? Please contact your broker for additional information.

Annual Meeting
Shareholders are invited to attend Prudential Financial, Inc.'s annual meeting, which will be held on May 8, 2012, beginning at 2 p.m. at our corporate headquarters. You may listen to the annual meeting on the internet by visiting **www.investor.prudential.com**. Additional information about the meeting can be found in the proxy statement.

Information about Prudential Financial, Inc.
You can contact Prudential Financial, Inc.'s Corporate Information Service at 877-998-7625 at any time to obtain or listen to financial results or press releases. **In addition, you may request a copy of our Annual Report on Form 10-K, which we will send to you without charge.** You may also access our press releases, financial information and reports filed with the Securities and Exchange Commission (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K and any amendments to those forms) online at **www.investor.prudential.com**. Copies of current documents on our website are available without charge, and reports filed with or furnished to the Securities and Exchange Commission will be available as soon as reasonably practicable after they are filed with or furnished to the Commission.

Investor Relations
Institutional investors, analysts and other members of the professional financial community can contact our Investor Relations department via e-mail at investor.relations@prudential.com, or by visiting the Investor Relations website at **www.investor.prudential.com**.

Visit Prudential Financial, Inc. Online
For more information about our corporate governance, as well as to access information for shareholders and information about our company, visit our website at **www.prudential.com/governance**.

Prudential

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