
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(MARK ONE)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

OR

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

Commission File Number 33-37587

Pruco Life Insurance Company

(Exact Name of Registrant as Specified in its Charter)

Arizona
(State or Other Jurisdiction of
Incorporation or Organization)

22-1944557
(I.R.S. Employer
Identification Number)

213 Washington Street, Newark, New Jersey 07102

(Address of principal executive offices) (Zip Code)

(973) 802-6000

(Registrant's Telephone Number, including area code)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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

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

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

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

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting Company ☐

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant: N/A

As of March 9, 2012, 250,000 shares of the registrant's common stock (par value \$10) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

THE INFORMATION REQUIRED TO BE FURNISHED PURSUANT TO PART III OF THIS FORM 10-K IS SET FORTH IN, AND IS HEREBY INCORPORATED BY REFERENCE HEREIN FROM, PRUDENTIAL FINANCIAL, INC.'S DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 8, 2012, TO BE FILED BY PRUDENTIAL FINANCIAL, INC. WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO REGULATION 14A NOT LATER THAN 120 DAYS AFTER DECEMBER 31, 2011.

**Pruco Life Insurance Company meets the conditions set
forth in General Instruction (I) (1) (a) and (b) on Form 10-K/A
and is therefore filing this Form with reduced disclosure.**

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A is being filed for the purpose of amending Items 8 and 9A of Part II of the Annual Report on Form 10-K for the year ended December 31, 2011 of Pruco Life Insurance Company (the "Company"), originally filed with the U.S. Securities and Exchange Commission on March 9, 2012, to reflect the restatement of the Company's Consolidated Statement of Cash Flows for the year ended December 31, 2011, as described in Note 2 to the Consolidated Financial Statements included in this Form 10-K/A. The restatement primarily corrects the presentation of the settlement of certain reinsurance transactions between the Company and its affiliates as if these settlements were made with cash when the correct presentation is to exclude these non-cash transactions from the Statement of Cash Flows.

In accordance with authoritative accounting guidance, once a company files interim information reflecting an accounting event for which retrospective treatment has been required or is elected, a subsequent Form 10-K/A filed to correct an error in previously issued financial statements should also reflect the retrospective effects of the accounting event. As such, the amended financial statements and disclosures filed in this Form 10-K/A reflect both the retrospective application of the presentation of comprehensive income and the interpretation of which costs relating to acquisition of new or renewal insurance contracts qualify for deferral that were adopted and reported retrospectively in the Company's Unaudited Interim Consolidated Financial Statements included in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012. As a result, Item 8, Items 7 and 7A of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended December 31, 2011, have been amended to reflect the retrospective application of these items.

Note 2 to the Consolidated Financial Statements presents, in tabular format, the impact on the Consolidated Financial Statements bifurcated between the effect of the change due to the retrospective adoption of the amended guidance related to the deferral of acquisition costs and the impact of the correction of the Statement of Cash Flows.

FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Annual Report on Form 10-K/A, 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 Pruco Life Insurance Company and its subsidiaries. There can be no assurance that future developments affecting Pruco Life Insurance Company 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; (9) changes in our financial strength or credit ratings; (10) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (11) investment losses, defaults and counterparty non-performance; (12) competition in our product lines and for personnel; (13) difficulties in marketing and distributing products through current or future distribution channels; (14) changes in tax law; (15) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (16) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (17) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities; (18) 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; (19) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (20) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; and (21) changes in statutory or accounting principles generally accepted in the United States of America, ("U.S. GAAP"), practices or policies. Pruco Life Insurance Company does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K/A for the year ended December 31, 2011 for discussion of certain risks relating to our businesses.

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PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations, or "MD&A," is omitted pursuant to General Instruction I (2) (a) of Form 10-K/A. The management narrative for Pruco Life Insurance Company that follows should be read in conjunction with the Forward-looking Statements included below the Table of Contents, "Risk Factors", and the Financial Statements and related notes included in this Annual Report on Form 10-K/A.

Management's narrative addresses the financial condition of Pruco Life Insurance Company as of December 31, 2011, compared with December 31, 2010, and its results of operations for the years ended December 31, 2011 and 2010.

Overview

The Company sells universal life insurance, variable life insurance, term life insurance and variable annuities, primarily through third party distributors in the United States. These markets are subject to regulatory oversight with particular emphasis placed on company solvency and sales practices. These markets are also subject to increasing competitive pressure, as the legal barriers that have historically segregated the markets of the financial services industry have been changed. Regulatory changes have opened the insurance industry to competition from other financial institutions, particularly banks and mutual funds that are positioned to deliver competing investment products through large, stable distribution channels. The Company also had marketed individual life insurance through its branch office in Taiwan. All insurance activity of the Taiwan branch has been ceded to an affiliate and the related assets and liabilities continue to be reflected in the Company's statements of financial position.

Beginning in March 2010, Prudential Annuities Life Assurance Corporation ("PALAC"), an affiliate of the Company, ceased offering its existing variable annuity products (and where offered, the companion market value adjustment option) to new investors upon the launch of a new product in the Company. In general, the new product line offers the same optional living benefits and optional death benefits as offered by PALAC's existing variable annuities. However, subject to applicable contractual provisions and administrative rules, PALAC will continue to accept subsequent purchase payments on in force contracts under existing annuity products. These initiatives were implemented to create operational and administrative efficiencies by offering a single product line of annuity products from a more limited group of legal entities. In addition, by limiting its variable annuity offerings to a single product line sold through one insurer (and its affiliate, for New York sales), the Prudential Annuities business unit of Prudential Financial expects to convey a more focused, cohesive image in the marketplace.

Industry Trends

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

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 and interest rates, 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 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.

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 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

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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 business operates in a highly competitive environment. 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 asset transfer feature, which is a feature that is valued in the variable annuity market. As a result of the launch of the Company's new product line in March 2010, an affiliated company, PALAC ceased selling variable annuity products. In general, the new product line offers the same optional living benefits and optional death benefits as offered by the Company's existing variable annuities.

The individual life market is 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.

Revenues and Expenses

The Company earns revenues principally from insurance premiums; mortality, expense, and asset administration fees from insurance and investment products; and investment of general account and other funds. The Company earns premiums primarily from the sale of individual life insurance. The Company earns mortality, expense fees, and asset administration fees on the servicing of separate account products including universal and variable life insurance and variable annuities. The Company's operating expenses principally consist of insurance benefits provided, general business expenses, commissions and other costs of selling and servicing the various products we sell and interest credited on general account liabilities.

Profitability

The Company's profitability depends principally on its ability and Prudential Insurance's ability to price and manage risk on insurance and annuity products, to attract and retain customer assets, and 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 life insurance and annuity products, including the extent and cost of reinsurance, 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 administration 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; and
- our reinsurance affiliates' ability to manage risk and exposures, including the degree to which, and the effectiveness of, hedging these risks and exposures.

In addition, factors such as credit market conditions, regulation, competition, interest rates, taxes, market fluctuations and general economic, market and political conditions affect our profitability. In some of our product lines, 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.

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

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

Deferred Policy Acquisition and Other Costs

We capitalize costs that are directly related to the acquisition or renewal of insurance and annuity contracts. These costs include 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. We also defer costs associated with sales inducements related to our variable and fixed annuity contracts. 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 7 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 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 profits or gross premiums. As of December 31, 2011, DAC for our life products was \$0.9 billion and DAC for our annuity products was \$1.6 billion. As of December 31, 2011, DSI was \$543 million, related entirely to our annuity products.

Amortization methodologies

DAC associated with term life policies 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 and the variable and fixed annuity contracts is 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 cost related to our guaranteed minimum death and guaranteed minimum income benefits. In addition, in calculating gross profits, we include the profits and losses related to contracts issued by the Company that are reported in affiliated legal entities other than the Company as a result of, for example, reinsurance agreements with those affiliated entities. The Company is an indirect subsidiary of Prudential Financial (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, including reinsurance agreements, as discussed in Note 13 to the Consolidated Financial Statements. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces a DAC amortization pattern representative of the total economics of the products. For a further discussion of the amortization of DAC and DSI, see “—Results of Operations.”

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, including any impacts that are recorded in the reinsurance affiliate. 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 the non-performance of the Company’s reinsurance affiliate, in our estimate of total gross profits used to determine the DAC and DSI amortization rates. In the third quarter of 2010, the hedging strategy of the Company and our reinsurance affiliate was revised, 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 the 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 the non-performance of the reinsurance affiliate, with capital market derivatives. Under the current hedging strategy, the hedge target continues to be grounded in a U.S. GAAP/capital markets valuation framework but incorporates

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two modifications to the U.S. GAAP valuation assumptions. A credit spread is added 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. The volatility assumption is also adjusted 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 the Company and the reinsurance affiliate believe the increase in the liability driven by these margins is temporary and does not reflect the economic value of the liability. For further discussion on the change in the hedging strategy refer to “Item 1 – Business—Products.”

As mentioned above, this change in the 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 change in the value of the hedge target liability and the change in the 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 our ultimate parent Company, Prudential Financial Inc. and its subsidiaries, 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 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 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.

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	Variable Annuities	Variable Life Insurance
Long-term equity expected rate of return	9.2%	9.2%
Fixed income expected rate of return (1)	4.5%	5.7%
Long-term blended expected rate of return (2)	7.5%	7.7%
Near-term maximum equity rate of return	13.0%	13.0%
Fixed income expected rate of return (1)	4.5%	5.7%
Blended maximum expected rate of return (2)	9.9%	9.8%
Near-term mean reversion blended rate of return	9.4%	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.

The weighted average rate of return assumptions described 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

Annuity Products

For variable annuity contracts, DAC and DSI are sensitive to changes in our future rate of return assumptions due primarily to the significant portion of 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 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 balance.

	December 31, 2011	
	Increase/(Reduction) in DAC	Increase/(Reduction) in DSI
	(in millions)	
Increase in future rate of return by 100 basis points	\$ 25	\$ 8
Decrease in future rate of return by 100 basis points	\$ (28)	\$ (10)

Life Products

For the variable and universal life policies, 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. We review and update our mortality assumptions annually. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations.

The DAC balance associated with the variable and universal life policies as of December 31, 2011 was \$0.6 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 and not 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.

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	December 31, 2011	
	Increase/(Reduction) in DAC	
	(in millions)	
Decrease in future mortality by 1%	\$	17
Increase in future mortality by 1%	\$	(17)

See “Results of Operations” for a discussion of the impact of DAC and DSI amortization on our results of the life and annuities products.

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. Derivative financial instruments we generally use include swaps, futures, forwards and options. 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, 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 10 to the Consolidated Financial Statements.

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 “Other income.” In addition, investments classified as available-for-sale, 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.

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 Note 2 to the Consolidated Financial Statements.

Policyholder Liabilities

Future Policy Benefit Reserves

The future policy benefit reserves relate primarily to term life products and are determined in accordance with U.S. GAAP as the present value of expected future benefits to or on behalf of policyholders less the present value of future net premiums, which are discussed more fully in Note 7 to the Consolidated Financial Statements. The expected future benefits are determined using assumptions as to mortality and lapse. Reserve assumptions are based on best estimate assumptions as of the date the policy is issued 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 gross premium 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 to the greater amount, first writing down DAC and then increasing reserves if needed. 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.

Future policy benefits also include reserves for guaranteed minimum death benefits (“GMDBs”) and optional living benefit features related to our variable annuity products. 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 10 to the Consolidated Financial Statements.

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In establishing reserves for GMDBs, guaranteed minimum income benefits ("GMIBs"), and optional living benefits 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 out of their surrender charge period average between 7% and 15% per year, and the lapse rate assumptions for contracts that are in-the-money and out of their surrender charge period average between 0% and 15% 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 recent company experience compared 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 the 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	\$	45
Increase in future rate of return by 100 basis points	\$	(37)

Unearned revenue reserves for variable and universal life contracts

Our unearned revenue reserve, or URR, reported as a component of "Policyholders' account balances," is \$370 million as of December 31, 2011. This reserve primarily relates to variable and universal life products and represents policy charges for services to be provided in future periods. The charges are deferred as unearned revenue and amortized over the expected lives of the contracts in proportion to the products' estimated gross profits, similar to DAC as discussed above.

For the variable and universal life policies, 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 the Company.

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 Costs 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%	\$	15
Increase in future mortality by 1%	\$	(15)

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The Company's liability for future policy benefits also includes other net liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 7 to the Consolidated Financial Statements.

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.

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 would have resulted in an increase or decrease in consolidated income from continuing operations in 2011 of \$3.5 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 9 to the Consolidated Financial Statements for a discussion of the impact in 2009 and 2011 of changes to our total unrecognized tax benefits related to tax years for which the statute of limitations has expired. 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.

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 the Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements.

The Company's Changes in Financial Position and Results of Operations are described below.

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1. Changes in Financial Position

2011 to 2010 Annual Comparison

Total assets increased \$17.463 billion, from \$58.788 billion at December 31, 2010 to \$76.251 billion at December 31, 2011.

Separate account assets increased \$14.888 billion, from \$43.269 billion at December 31, 2010 to \$58.157 billion at December 31, 2011, primarily driven by positive net flows from new business sales.

Reinsurance recoverables increased by \$3.002 billion from \$2.727 billion at December 31, 2010 to \$5.729 billion at December 31, 2011 primarily driven by an increase in universal life ceded reserves and ceded policyholders' account balances arising from an affiliated coinsurance transaction executed in 2011 with PAR U. Also contributing to the increase in reinsurance recoverables was higher term reserves ceded under existing affiliated reinsurance agreements due to business growth, and an increase in the mark-to-market of reinsurance recoverable related to the reinsured liability for variable annuity living benefit embedded derivatives primarily resulting from an increase in the present value of future expected benefit payments driven by lower interest rates. See Note 13 to the Consolidated Financial Statements for additional information regarding affiliated reinsurance transactions.

Partially offsetting the increase in reinsurance recoverables, was a decrease in total investments of \$213 million from \$8.800 billion at December 31, 2010 to \$8.587 billion at December 31, 2011. This decrease was primarily driven by the transfer of assets as part of the 2011 coinsurance agreement with PAR U, partially offset by growth in investments from term and universal life business growth, higher retained asset account balances, and unrealized gains on investments.

In addition, deferred policy acquisition costs decreased by \$148 million from \$2.694 billion at December 31, 2010, to \$2.546 billion at December 31, 2011. The decrease is primarily driven by the impact of the mark-to-market of the reinsured liability for variable annuity living benefit embedded derivatives and related hedge positions, and the DAC balances ceded to PAR U as part of the coinsurance transaction noted above and, partially offset by capitalization of commissions related to variable annuity sales.

Total liabilities increased by \$17.548 billion, from \$55.908 billion at December 31, 2010 to \$73.456 billion at December 31, 2011.

Separate account liabilities increased \$14.888 billion, offsetting the increase in separate account assets described above. Future policy benefits and other policyholder liabilities increased by \$1.966 billion, from \$3.328 billion at December 31, 2010 to \$5.294 billion at December 31, 2011, primarily driven by an increase in the liability for living benefit embedded derivatives, as described above, and continued growth in term in force.

Short-term and long-term debt to affiliates increased \$406 million from \$895 million at December 31, 2010 to \$1.301 billion at December 31, 2011 driven by increased borrowings to fund new business commissions resulting from increased annuity sales, as discussed above.

Policyholders' account balances increased \$300 million from \$7.512 billion at December 31, 2010 to \$7.812 billion December 31, 2011 primarily driven by continued universal life sales and in force growth, growth in retained asset account balances, and the impact of the annual review of assumptions used in our estimate of total gross profits which forms the basis for amortizing unearned revenue reserves, partially offset by the impact of unrealized gains on unearned revenue reserves.

Results of Operations

2011 to 2010 Annual Comparison

	Year Ended December 31,	
	2011	2010
	(in thousands)	
Operating results:		
Revenues:		
Annuity Products	\$1,025,826	\$ 735,644
Life Products and Other	1,105,858	603,350
	<u>\$2,131,684</u>	<u>\$1,338,994</u>
Benefits and expenses:		
Annuity Products	\$1,904,786	\$ 446,677
Life Products and Other	581,097	375,333
	<u>\$2,485,883</u>	<u>\$ 822,010</u>
Income (loss) from Operations before Income Taxes		
Annuity Products	\$ (878,960)	\$ 288,967
Life Products and Other	524,761	228,017
	<u>\$ (354,199)</u>	<u>\$ 516,984</u>

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Annuity Products

Income (Loss) from Operations before Income Taxes

2011 to 2010 Annual Comparison. Income (loss) from operations before income taxes decreased \$1,168 million from income of \$289 million in 2010 to a loss of \$879 million in 2011. The decrease was primarily driven by higher amortization of deferred policy acquisition costs (“DAC”) and deferred sales inducements (“DSI”) related to the impact of the mark-to-market of the reinsured liability for living benefit embedded derivatives and related hedge positions, as discussed in more detail below. Also contributing to the decrease was an unfavorable variance related to adjustments to the amortization of DAC and DSI, and in the reserves for the guaranteed minimum death (“GMDB”) and 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 higher amortization of DAC/DSI and higher GMDB/GMIB reserve impacts noted above, income (loss) from operations before income taxes increased over prior year 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 and market appreciation. The higher fee income was partially offset by an unfavorable variance in the mark-to-market related to the embedded derivatives associated with our non-reinsured living benefit features and related hedges due to unfavorable market performance in 2011 versus 2010. Also offsetting this increase were higher general and administrative expenses, net of capitalization, primarily due to higher costs to support business growth and higher asset based trail commissions due to higher average variable annuity account values, as discussed above, and increased interest expense related to higher intercompany borrowings to fund costs related to new business sales.

We amortize DAC and DSI over the expected lives of the contracts based on the level and timing of gross profits on the underlying Annuity products. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and include profits and losses related to these contracts that are reported by affiliated legal entities other than the Company as a result of, for example, reinsurance agreements with those affiliated entities. The Company is an indirect subsidiary of Prudential Financial, Inc. (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, Inc. including reinsurance agreements, as discussed in Note 13 to the Consolidated Financial Statements. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces an amortization pattern representative of the economics of the products.

As mentioned above, included in the unfavorable variance from higher amortization of DAC and DSI, was \$910 million of higher amortization related to the impact of the mark-to-market of the reinsured liability for living benefit embedded derivatives and related hedge positions. This impact primarily relates to changes in the valuation of the reinsured living benefit liabilities in 2011 related to Non-performance risk (“NPR”) gains, which we and the reinsurance affiliate believe to be non-economic, and choose not to hedge, as discussed above, partially offset by losses driven by the difference between the change in the fair value of the hedge target liability and the change in the fair value of the hedge assets in the reinsurance affiliate due to significant capital markets volatility in 2011.

To reflect the NPR of our affiliates in the valuation of the embedded derivative liabilities, we incorporate an additional spread over LIBOR into the discount rate used in the valuation. Positive NPR adjustments in the reinsurance affiliate in 2011 were primarily driven by a higher base of embedded derivative liabilities. Significant declines in risk-free interest rates and the impact of account value performance drove increases in the embedded derivative liability base in 2011. The NPR gains in the reinsurance affiliate were larger in 2011 compared to 2010 resulting in an unfavorable variance from higher DAC and DSI amortization.

As shown in the following table, the loss from operations for 2011 included \$120 million of net charges from adjustments to the amortization of DAC/DSI and the reserves for the GMDB /GMIB features of our variable annuity products, compared to \$128 million of benefits included in income from operations in 2010.

	Year Ended December 31, 2011			Year Ended December 31, 2010		
	Amortization of DAC and DSI (1)	Reserves for GMDB / GMIB (2)	Total (in thousands)	Amortization of DAC and DSI (1)	Reserves for GMDB / GMIB (2)	Total
Quarterly market performance adjustment	\$ (47,341)	\$ (53,886)	\$(101,227)	\$ 12,189	\$ 15,101	\$ 27,290
Annual review / assumption updates	(16,215)	13,541	(2,674)	44,508	4,354	48,862
Quarterly adjustment for current period experience and other updates (3)	(20,315)	3,725	(16,590)	26,907	25,429	52,336
Total	<u>\$ (83,871)</u>	<u>\$ (36,620)</u>	<u>\$(120,491)</u>	<u>\$ 83,604</u>	<u>\$ 44,884</u>	<u>\$128,488</u>

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- (1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of DAC and DSI.
- (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 \$101 million of charges and \$27 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	3.4%	0.8%	(10.2)%	4.6%	3.3%	(5.9)%	7.7%	5.8%
Expected rate of return	1.8%	1.8%	1.9%	2.3%	2.0%	2.0%	2.1%	2.0%

Overall lower than expected returns in 2011 decreased our estimate of total gross profits used as a basis for amortizing DAC/DSI 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.

As discussed and shown in the table above, results for both periods 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/DSI. The third quarter of 2011 included \$3 million of charges from these annual reviews, primarily related to a reduction of the weighted average future fixed rate of return assumption to 4.5% partially offset by a reduction of the assumption of the percentage of contracts with a GMIB feature that will annuitize based on the guaranteed value. The reduction in the weighted average future fixed rate of return assumption 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 fixed rate of return. The third quarter of 2010 included \$49 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/DSI, 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 \$17 million charge for 2011 and the \$52 million benefit for 2010 shown in the table above reflect the quarterly adjustments for current period experience, also referred to as experience true-up adjustments. The experience true-up adjustments for 2011 include an increase in the amortization of DAC/DSI primarily driven by the determination that the difference in the change of the fair value of the hedge target liability and the change in the fair value of the hedge assets in the reinsurance affiliate was other-than-temporary, resulting in its inclusion in our best estimate of total gross profits used for setting amortization rates. The experience true-up adjustments for 2010 include a reduction in the amortization of DAC/DSI driven by higher than expected gross profits primarily from higher than expected fee income. The unfavorable variance related to the adjustment to the GMDB/GMIB reserves was primarily driven by differences in actual lapse experience and contract guarantee claim costs in 2010 compared to 2011.

As noted previously, the quarterly adjustments to reflect current period market performance and experience, and the annual review and update of assumptions impact the estimated the 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/DSI in future periods.

Revenues

2011 to 2010 Annual Comparison. Revenues increased \$290 million from \$736 million in 2010 to \$1,026 million in 2011.

Policy charges and fee income, consisting primarily of mortality and expense and other insurance charges assessed on policyholders’ fund balances, increased \$381 million from \$394 million in 2010 to \$775 million in 2011. The increase was primarily driven by higher average variable annuity account values invested in separate accounts due to positive net flows and favorable markets.

Asset administration fees increased by \$121 million from \$71 million in 2010 to \$192 million in 2011, primarily due to higher average separate account asset balances, as discussed above.

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Offsetting these increases was a decrease in net realized investment gains of \$206 million from a benefit of \$96 million in 2010, to a loss of \$110 million in 2011, primarily driven by an unfavorable variance in the mark-to-market related to the embedded derivatives associated with our non-reinsured living benefit features and related hedges driven by unfavorable markets in 2011.

Benefits and Expenses

2011 to 2010 Annual Comparison. Benefits and expenses increased \$1,458 million from \$447 million in 2010 to \$1,905 million in 2011.

Amortization of DAC increased by \$906 million, from \$8 million in 2010 to \$914 million in 2011 primarily due to higher DAC amortization related to the impact of the mark-to-market of the reinsured liability for living benefit embedded derivatives and related hedge positions and the impact of our quarterly adjustments to reflect current period experience and market performance, as well as our annual assumption update, as discussed above.

Interest credited to policyholders' account balances increased \$269 million, from \$90 million in 2010 to \$359 million in 2011, primarily due to higher DSI amortization related to the impact of the mark-to-market of the reinsured liability for living benefit embedded derivatives and related hedge positions and the impact of our quarterly adjustments to reflect current period experience and market performance, as well as our annual assumption update, as discussed above.

General and administrative expenses, net of capitalization, increased \$186 million, from \$333 million in 2010 to \$519 million in 2011, primarily due to higher costs to support business growth, higher distribution expenses driven by higher asset based trail commissions due to higher account values, as discussed above, and increased interest expense related to higher intercompany borrowings to fund costs related to new business sales.

Policyholders benefits, including changes in reserves, increased \$97 million, from \$16 million in 2010 to \$113 million in 2011, primarily due to the adjustments to the GMDB and GMIB reserves related to the impact of our quarterly adjustments to reflect current period experience and market performance, as well as our annual assumption update, as discussed above.

Life Products and Other

Income from Operations before Income Taxes

2011 to 2010 Annual Comparison. Income from Operations before Income Taxes increased \$297 million from \$228 million in 2010 to \$525 million in 2011. Results for 2011 included a \$3 million charge arising from updates of our actuarial assumptions based on an annual review, primarily reflecting improved mortality expectations, which resulted in an increase in reserves for the guaranteed minimum death benefit feature in certain contracts, partially offset by lower amortization of deferred policy acquisition costs net of unearned revenue reserves. The 2010 results included a \$38 million benefit from the annual review, primarily reflecting methodology refinements related to the treatment of certain investment income in our assumptions which reduced reserves for the guaranteed minimum death benefit feature in certain contracts. The annual reviews update assumptions used in our estimate of total gross profits which forms 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.

Excluding these adjustments, Income from Operations before Income Taxes in 2011 increased \$338 million driven by a \$313 million gain realized on a portion of an embedded derivative recaptured upon modification of the reinsurance agreement of no-lapse guarantees with UPARC, a \$37 million derivative gain arising from the settlement of this recapture, and \$73 million in realized gains related to asset transfers to affiliates (see Note 13 to the Consolidated Financial Statements for more information). These items were partially offset by a \$61 million derivative loss related to the settlement of the initial premium payable to PAR U as part of a new coinsurance agreement as described above, and higher net DAC amortization reflecting the impact of equity markets on separate account fund performance in the respective periods.

Revenues

2011 to 2010 Annual Comparison. Revenues of \$1,106 million in 2011 increased \$503 million, from \$603 million in 2010.

Premiums increased \$2 million from \$59 million in 2010 to \$61 million in 2011. Direct premiums for term insurance increased \$74 million due to continued growth in term business and were largely offset by ceded term reinsurance premiums that increased \$72 million due to continued business growth and decreased retention limits resulting from modifications to certain coinsurance treaties with affiliates in 2010. The increase in ceded term reinsurance premiums was partially offset by the impact of amending certain affiliated reinsurance treaties in 2010 to change settlement modes from monthly to annual which resulted in an increase in premiums ceded to affiliated reinsurers in 2010.

Policy charges and fee income, consisting primarily of mortality and expense loading and other insurance charges assessed on general and separate account policyholders' fund balances, increased \$137 million including a \$5 million lower increase in unearned revenue reserves due to the annual reviews of assumptions. Excluding this item, policy charges and fee income increased \$132 million reflecting the impact of amending certain affiliated reinsurance treaties in 2010 to change settlement modes from monthly to annual which resulted in an increase in policy charges ceded to affiliated reinsurers in 2010, higher policy charges due to continued universal life sales and in force growth, and an increase in amortization of unearned revenue reserves due to changes in our estimates of total gross profits reflecting the impact of less favorable market conditions on separate account fund performance in 2011 compared to 2010. This was partially offset by higher policy charges ceded resulting from the 2011 coinsurance agreement with PAR U and the impact of the variable life in force run off.

Net realized investment gains increased \$356 million, from \$15 million in 2010 to \$371 million in 2011. The increase is primarily driven by a \$313 million gain realized on a portion of an embedded derivative recaptured upon modification of the reinsurance agreement of no-lapse guarantees with UPARC, a \$37 million derivative gain arising from the settlement of this recapture, and \$73 million in realized gains related to asset transfers to affiliates as discussed above. This was partially offset by a \$61 million derivative loss related to the settlement of the initial premium payable to PAR U as part of a new coinsurance agreement as described above.

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Benefits and Expenses

2011 to 2010 Annual Comparison. Total benefits and expenses of \$581 million in 2011 increased \$206 million, from \$375 million in 2010.

Policyholders' benefits, including interest credited to policyholders' account balances, increased \$199 million, from \$143 million in 2010 to \$342 million in 2011. This increase includes \$42 million from the impact of the annual reviews of assumptions on reserves for the guaranteed minimum death benefit feature in certain contracts which reduced policyholder benefits in 2010 and increased policyholder benefits in 2011. Excluding this item, policyholders' benefits, including interest credited to policyholders' account balances increased \$157 million. This increase includes the impact of a decrease in reserves ceded due to the amendment of certain of our affiliated reinsurance treaties to change settlement modes from monthly to annual which increased ceded reserves in 2010 and a \$2 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, partially offset by the impact of higher reserves ceded due to decreased retention limits resulting from modifications to certain coinsurance treaties with affiliates in 2010.

Amortization of deferred policy acquisition costs of \$59 million in 2011 was flat in comparison to 2010 including a \$3 million increase from the impacts of the annual reviews of assumptions. Excluding this item, amortization of deferred policy acquisition costs decreased \$3 million including higher amortization ceded resulting from the 2011 coinsurance agreement with PAR U, partially offset by higher amortization arising from the understatement of deferred reinsurance expense allowances related to affiliated reinsurance of our term business in prior periods and an increase in amortization due to changes in our estimates of total gross profits reflecting the impact of less favorable market conditions on separate account fund performance in 2011 compared to 2010.

General and administrative expenses, net of capitalization, increased \$6 million from \$173 million in 2010 to \$179 million in 2011 driven by higher operating expenses.

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. The 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 through affiliates as described herein.

Management monitors the liquidity of Prudential Financial, Prudential Insurance and the Company 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 the Company, 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 use a Capital Protection Framework to ensure the availability of adequate capital under reasonably foreseeable stress scenarios. The Capital Protection Framework is used 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 the Company. See "Other Business Regulation" in Part I for information regarding the potential effects of the Dodd-Frank bill on the Company and its affiliates.

General Liquidity

Our liquidity is managed 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. Our investment portfolios are integral to the overall liquidity of the Company. 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 to meet projected cash outflows, including claims. The impact of Prudential Funding, LLC's financing capacity on liquidity (as described below) is considered in the internal liquidity measures of the Company.

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.

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Cash Flow

The principal sources of the Company's liquidity are premiums and certain annuity considerations, investment and fee income, investment maturities and sales as well as internal 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. As a result of the launch of its new annuity product line in March 2010, as discussed above, the Company has seen and expects to continue to see the overall level of these activities to increase.

We believe that the cash flows from our insurance and annuity operations are adequate to satisfy our current liquidity requirements, 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, customer behavior, 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 products. Our 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. Further, the level of new business sales can also impact liquidity, and additional financing may be required due to the increase in annuity sales as previously discussed.

In managing our liquidity, 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.

Individual life insurance policies are less susceptible to withdrawal than our annuity reserves and deposit liabilities because policyholders may 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 current value of these guarantee features to policyholders as a result of market declines in recent years.

Gross account withdrawals amounted to approximately \$2.5 billion and \$2.3 billion for the years ended December 31, 2011 and 2010, respectively. Because these withdrawals were consistent with our assumptions in asset/liability management, the associated cash outflows did not have a material adverse impact on our overall liquidity.

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, fixed maturities available-for-sale, equity securities available-for-sale and trading account assets. As of December 31, 2011 and 2010 the Company had liquid assets of \$6.149 billion and \$6.696 billion, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$571 million and \$612 million as of December 31, 2011 and 2010, respectively. As of December 31, 2011, \$5.114 billion, or 92%, of the fixed maturity investments company general account portfolios were rated investment grade. The remaining \$430 million, or 8%, of these fixed maturity investments were rated non-investment grade. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures in order to evaluate the adequacy of our 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 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 liquidity is managed through access to substantial investment portfolios as well as a variety of instruments available for funding and/or managing short-term 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. We believe that borrowing temporarily or selling investments earlier than anticipated will not have a material impact on the liquidity of the Company. Payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating and investing activities, respectively, in our financial statements.

Prudential Funding, LLC

Prudential Funding, LLC, or Prudential Funding, a wholly owned subsidiary of Prudential Insurance, serves as an additional source of financing to meet our working capital needs. Prudential Funding operates under a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding positive tangible net worth at all times. Prudential Funding borrows funds in the capital markets primarily through the direct issuance of commercial paper.

Capital

The Risk Based Capital, or RBC, ratio is a primary measure by which we evaluate the capital adequacy of the Company. Prudential Financial manages its domestic insurance subsidiaries RBC ratios to a level that is consistent with the ratings targets for those subsidiaries and in excess of the minimum levels required by applicable insurance regulations. RBC is determined by statutory formulas that consider risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products, 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. Based upon December 31, 2011 amounts, the RBC ratios for the Company 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.

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The level of statutory capital of the Company can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of 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 the Company is also affected by statutory accounting rules which are subject to change by insurance regulators.

During 2010, as part of its Capital Protection Framework, Prudential Financial developed a broad view of the impact of market distress on the statutory capital of Prudential Financial and its subsidiaries, as a whole. In the second quarter of 2010, the capital hedge program was terminated as described under “—Products” and equity index-linked derivative transactions were entered into that are designed to mitigate the impact of a severe equity market stress event on the statutory capital of Prudential Financial and its subsidiaries, as whole. The program focuses on tail risk to protect statutory capital in a cost-effective manner under stress scenarios. A portion of the derivatives related to the new program were purchased by the Company in the 4th quarter of 2011. Prudential Financial assesses the composition of the hedging program on an ongoing basis and may change it from time to time based on an evaluation of its risk position or other factors.

In addition to hedging equity market exposure, we also manage certain risks associated with our variable annuity products through hedging programs and affiliated reinsurance arrangements. Primarily in the reinsurance affiliate, interest rate derivatives and equity options and futures are purchased to hedge certain optional living benefit features accounted for as embedded derivatives against changes in certain capital markets assumptions such as equity markets, interest rates, and market volatility. Prior to third quarter of 2010, the 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 non-performance, with capital market derivatives. In the third quarter of 2010, the hedging strategy was revised as, in a low interest rate environment, management of the Company and reinsurance affiliates does not believe that the U.S. GAAP value of the embedded derivative liability is an appropriate measure for determining the hedge target. For additional information regarding the change in hedging strategy see “Item 1. Business—Products”.

We reinsure variable annuity living benefit guarantees 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, the Company is able to claim a 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 Pruco Life Insurance Company of New Jersey (“PLNJ”), Pruco Re’s obligations under the reinsurance arrangement must continue to be collateralized in order for PLNJ to claim a reinsurance reserve credit for their business ceded. This requirement is satisfied by Pruco Re by depositing assets into statutory reserve credit trusts.

Debt Agreements

As of December 31, 2011 and 2010, total short- and long-term debt of the Company was \$1,301 million and \$895 million, respectively. The total related interest expense was \$33 million and \$3 million in 2011 and 2010, respectively. The Company has an agreement with an affiliate, Prudential Funding, LLC, which allows the Company to borrow funds for working capital and liquidity needs. The borrowings under this agreement are limited to \$1.4 billion. The Company had \$129 million in short term debt as of December 31, 2011, and no borrowings outstanding as of December 31, 2010. The Company also borrowed \$650 million from Prudential Insurance and \$522 million from Prudential Financial.

Item 7a. 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 business.

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 or equity 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, we incur market risk primarily in the form of interest rate risk. We manage this risk through asset/liability management 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. The Company also mitigates this risk through a market value adjusted (“MVA”) provision on the Company’s fixed investment option. This MVA provision limits interest rate risk when a contractholder withdraws funds or transfers funds to variable investment options before the end of the guarantee period. Our overall objective in these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements. 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.

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For variable annuities and variable life insurance products excluding the fixed rate accounts associated with these products, 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 administration fees calculated by reference to performance could be lower. The risk of decreased asset based and asset administration 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 in the current period.

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 requirements, an asset transfer feature and minimum purchase age requirements, as well as reinsurance programs. These strategies exclude our guaranteed minimum income benefits and guaranteed minimum death benefits, which include risks we have deemed suitable to retain.

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 life and annuities products, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

In addition, certain products supported by general account investments 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. 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 Item 1A. “Risk Factors.”

The sources of our exposure to market risk are primarily related to, “other than trading” activities conducted primarily in our insurance and annuity operations. As part of our management of 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 insurance 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, Annuities, and Guaranteed 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 risk within policy constraints set by management and approved by the Investment Committee of Prudential Financial and the Board of Directors.

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 seek 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 for each entity. As of December 31, 2011 and 2010, the difference between the duration of assets and the target duration of liabilities in our duration-managed portfolios was within our constraint limits. We consider risk-based capital implications in our asset/liability management strategies.

We also perform portfolio stress testing as part of our regulatory cash flow testing. 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.

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Market Risk Related to Interest Rates

Our “other than trading” assets that subject us to interest rate risk include primarily fixed maturity securities, commercial loans and policy loans. In the aggregate, the carrying value of these assets represented 42% of our consolidated assets, other than assets that we held in separate accounts, as of December 31, 2011 and 52% as of December 31, 2010.

With respect to “other than trading” liabilities, we are exposed to interest rate risk through policyholders’ 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 debt with affiliates.

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. 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.

December 31, 2011				
	Notional Value of Derivatives	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, available for sale	\$	\$5,567	\$ 5,334	\$ (233)
Policy loans		1,401	1,287	(114)
Commercial Loans		1,544	1,480	(64)
Derivatives: (1)				
Futures	—	—	—	—
Swaps	1,090	94	24	(70)
Options	7,957	28	28	(0)
Forwards	7	—	(0)	(0)
Financial Liabilities with Interest Rate Risk:				
Investment Contracts		(674)	(671)	3
Total Estimated Potential Loss				(478)

- (1) Excludes variable annuity optional living benefits accounted for as embedded derivatives as the Company has generally entered into reinsurance agreements to transfer the risk related to these optional living benefits to an affiliate as part of its risk management strategy.

December 31, 2010				
	Notional Value of Derivatives	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, available for sale	\$ —	\$6,065	\$ 5,841	\$ (224)
Policy loans	—	1,258	1,162	(96)
Commercial Loans	—	1,353	1,295	(58)
Derivatives: (1)				
Futures	—	—	—	—
Swaps	619	11	(20)	(31)
Options	72	3	3	—
Forwards	2	—	—	—
Financial Liabilities with Interest Rate Risk:				
Investment Contracts	—	(584)	(582)	2
Total Estimated Potential Loss				(407)

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- 1) Excludes variable annuity optional living benefits accounted for as embedded derivatives as the Company has generally entered into reinsurance agreements to transfer the risk related to these optional living benefits to an affiliate as part of its risk management strategy.

The tables above do not include approximately \$12.432 billion of insurance reserve and deposit liabilities as of December 31, 2011 and \$10.255 billion as of December 31, 2010. We believe that the interest rate sensitivities of these insurance liabilities offset, in large measure, the interest rate risk of the financial assets set forth in these tables. The tables above also exclude variable annuity optional living benefits accounted for as embedded derivatives as the Company generally reinsures to affiliates the risks associated with these benefits as part of its risk management strategy.

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 assets associated with products for which investment risk is borne primarily by the contractholders rather than by us.

The Company also sells certain universal life products that contain a no lapse guarantee provision and has entered into an agreement with UPARC to reinsure these guarantees that are accounted for as an embedded derivative. This embedded derivative incurs market risk primarily in the form of interest rate risk. Interest sensitivity can result in changes in the value of the underlying contractual guarantees, which are determined using a risk neutral valuation model.

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 equity investments within the separate accounts, the investment risk is borne primarily by the separate account contractholder rather than by the Company. As part of its risk management strategy the Company generally reinsures to affiliates the risks related to variable annuity optional living benefits accounted for as embedded derivatives. In addition to the hedging program in the reinsurance affiliates, in 2010, Prudential Financial changed the focus of its capital hedge program from the equity price risk associated with the annuities business to a broader view of equity market exposure of the statutory capital of Prudential Financial and its subsidiaries, as a whole. In the second quarter of 2010, Prudential Financial and its subsidiaries entered into equity index-linked derivative transactions that were designed to mitigate the overall impact of a severe equity market stress event on statutory capital. The program now focuses on tail risk to protect statutory capital in a cost-effective manner under stress scenarios. A portion of the derivatives related to the new program were purchased by the Company in the fourth quarter of 2011. Prudential Financial assesses the composition of the hedging program on an ongoing basis and may change it from time to time based on an evaluation of its risk position or other factors. Our estimated equity price risk associated with these capital hedges as of December 31, 2011 and 2010 was \$7 million and \$0 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.

Market Risk Related to Foreign Currency Exchange Rates

The Company is exposed to foreign currency exchange rate risk in its domestic general account investment portfolios and previously through its operations in Taiwan.

Our exposure to foreign currency risk within the domestic general account investment portfolios supporting our U.S. insurance operations arises primarily from investments that are denominated in foreign currencies. We generally hedge substantially all domestic general account foreign currency-denominated fixed-income 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 exchange rates.

The Company has foreign currency obligations related to its historic operations in Taiwan. Such currency obligations are offset by foreign currency assets from reinsurance agreements the Company entered into when the Company's Taiwan operation was transferred to an affiliated company in 2001. See Note 13 to the Consolidated Financial Statements for more information related to these affiliated reinsurance arrangements.

Foreign currency exchange risk is actively managed within specified limits at the enterprise (Prudential Insurance) level using Value-at-Risk-based ("VaR") 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.

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Financial Derivatives

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, or the prices of securities. Derivative financial instruments may be exchange-traded or contracted in the over-the-counter market and include swaps, futures, options and forward contracts. See Note 11 to the Consolidated Financial Statements for a description of derivative activities as of December 31, 2011 and 2010. Under insurance statutes, 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. The Company uses derivative financial instruments primarily to manage market risk from changes in interest rates, foreign currency exchange rates and to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities.

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.

Item 8. Financial Statements and Supplementary Data

Information required with respect to this Item 8 regarding Financial Statements and Supplementary Data is set forth within the Index to Consolidated Financial Statements elsewhere in this Annual Report on Form 10-K/A.

Item 9A. Controls and Procedures

Management's Annual Report on Internal Control Over Financial Reporting on the effectiveness of internal control over financial reporting as of December 31, 2011 are included in Part IV, Item 15 of this Annual Report on Form 10-K/A.

In order to ensure that the information we must disclose in our filings with the SEC, is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, previously reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2011. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer previously concluded that, as of December 31, 2011, our disclosure controls and procedures were effective. No change in the Company's internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), occurred during the quarter ended December 31, 2011 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting. These conclusions are not affected by the error in the Company's Consolidated Statements of Cash Flows discussed in the following paragraph.

As reported in a Current Report on Form 8-K filed by the Company on July 6, 2012, management of the Company concluded that certain amounts were incorrectly classified in the Company's audited Consolidated Statements of Cash Flows for the year ended December 31, 2011 included in the Company's 2011 Annual Report on Form 10-K (the "2011 Form 10-K"). As such, management of the Company concluded on July 2, 2012 that the Company should file this Form 10-K/A restating the Consolidated Statements of Cash Flows included in the 2011 Form 10-K. The restatement primarily corrects the presentation of the settlement of certain reinsurance transactions between the Company and its affiliates as if these settlements were made with cash when the correct presentation is to exclude these non-cash transactions from the Statement of Cash Flows. The restatements are limited to the impact of these reinsurance transactions on the Consolidated Statement of Cash Flows for the year ended December 31, 2011. The Company has implemented improvements to its internal control over financial reporting, primarily with respect to non-cash affiliated asset transfers and formalizing the review of statements of cash flows, designed to provide reasonable assurance that errors of this type in the Company's Consolidated Statements of Cash Flows will be prevented.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2) Financial Statements of the Registrant and its subsidiaries are listed in the accompanying “Index to Consolidated Financial Statements” and are filed as part of this Report.

(a) (3) **Exhibits**

2. Not applicable.

3(i)(a) The Articles of Incorporation of Pruco Life Insurance Company (as amended through October 19, 1993) are incorporated by reference to the initial Registration Statement on Form S-6 of Pruco Life Variable Appreciable Account as filed July 2, 1996, Registration No. 333-07451.

3(ii) By-Laws of Pruco Life Insurance Company (as amended through May 6, 1997) are incorporated by reference to Form 10-Q as filed August 15, 1997, Registration No. 33-37587.

4. Exhibits

4(a) Modified Guaranteed Annuity Contract is incorporated by reference to the Registrant’s Registration Statement on Form S-1 as filed November 2, 1990, Registration No. 33-37587.

4(b) Market-Value Adjustment Annuity Contract (Discovery Preferred Select variable annuity) is incorporated by reference to Form N-4, Registration No. 33-61125, filed July 19, 1995, on behalf of the Pruco Life Flexible Premium Variable Annuity Account.

4(c) Market-Value Adjustment Annuity Contract (Discovery Select variable annuity) is incorporated by reference to Form N-4, Registration No. 333-06701, filed June 24, 1996, on behalf of the Pruco Life Flexible Premium Variable Annuity Account.

4(d) Market-Value Adjustment Annuity Contract (Strategic Partners Horizon annuity) is incorporated by reference to the Registrant’s Pre-Effective Amendment No. 1 to Form S-1, Registration No. 333-89530, filed September 27, 2002.

4(e) Market-Value Adjustment Annuity Contract Endorsement (Strategic Partners Annuity 3 variable annuity) is incorporated by reference to the Registrant’s registration statement on Form S-3, Registration No. 333-103474, filed February 27, 2003.

4(f) Market-Value Adjustment Annuity Contract (Strategic Partners FlexElite variable annuity) is incorporated by reference to Post-Effective Amendment No. 1 to Form N-4, Registration No. 333-75702, filed February 14, 2003, on behalf of the Pruco Life Flexible Premium Variable Annuity Account.

9. None.

10. None.

11. Not applicable.

12. Not applicable.

13. Not applicable.

16. Not applicable.

18. None.

22. None.

23. Not applicable.

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24.0 Powers of Attorney.

31.1 Section 302 Certification of the Chief Executive Officer.

31.2 Section 302 Certification of the Chief Financial Officer.

32.1 Section 906 Certification of the Chief Executive Officer.

32.2 Section 906 Certification of the Chief Financial Officer.

101.INS -XBRL Instance Document.

101.SCH-XBRL Taxonomy Extension Schema Document.

101.CAL-XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB-XBRL Taxonomy Extension Label Linkbase Document.

101.PRE-XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF-XBRL Taxonomy Extension Definition Linkbase Document.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newark, and State of New Jersey, on the 20th day of July 2012.

PRUCO LIFE INSURANCE COMPANY
(Registrant)

By: /s/ Robert F. O'Donnell

Robert F. O'Donnell
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on July 20, 2012.

Signature

Title

/s/ Robert F. O'Donnell
Robert F. O'Donnell

Chief Executive Officer,
President and Director

/s/ Thomas J. Diemer
Thomas J. Diemer

Vice President,
Chief Financial Officer and Director

*James J. Avery
James J. Avery

Director

*Robert M. Falzon
Robert M. Falzon

Director

*Bernard J. Jacob
Bernard J. Jacob

Director

*Yanela C. Frias
Yanela C. Frias

Director

* By: /s/ Joseph D. Emanuel

Joseph D. Emanuel
(Attorney-in-Fact)

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PRUCO LIFE INSURANCE COMPANY
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Consolidated Financial Statements:	
Consolidated Statements of Financial Position—December 31, 2011 and 2010	29
Consolidated Statements of Operations and Comprehensive Income Years ended December 31, 2011, 2010 and 2009	30
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Management's Annual Report on Internal Control Over Financial Reporting

Management of Pruco Life Insurance Company ("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.

This Annual Report does not include an attestation report of the Company's registered public accounting firm, PricewaterhouseCoopers LLP, regarding internal control over financial reporting. Internal controls over Financial Reporting were not subject to attestation by the Company's registered public accounting firm pursuant to final rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

In conjunction with the restatement of these financial statements discussed in Notes 1 and 2, Management has reassessed the Company's internal controls over financial reporting and concluded that the Company's internal control over financial reporting was effective at December 31, 2011.

March 9, 2012 except for the reassessment related to the restatement of these financial statements, as to which the date is July 20, 2012

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of
Pruco Life Insurance Company:

In our opinion, the accompanying consolidated statements of financial position and the related statements of operations and comprehensive income, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Pruco Life Insurance Company (a wholly owned subsidiary of The Prudential Insurance Company of America) 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. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 2, of the consolidated financial statements, the Company has restated its previously issued 2011 consolidated statements of cash flows to correct an error. As discussed in Note 2, the Company changed the manner in which it accounts for the cost related to the acquisition or renewal of insurance contracts and the presentation of comprehensive income. Additionally, the Company changed its method of determining and recording other-than-temporary impairment for debt securities on January 1, 2009.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York

March 9, 2012, except for the effects of the restatement discussed in Notes 1 and 2 and the effects of the adoption of the accounting standard relating to accounting for acquisition costs associated with acquiring or renewing insurance contracts, and the effects of the adoption of the accounting standard related to the presentation of comprehensive income discussed in Note 2, as to which the date is July 20, 2012.

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Financial Position
As of December 31, 2011 and December 31, 2010 (in thousands, except share amounts)

	December 31, 2011	December 31, 2010
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2011 – \$5,151,406; 2010 – \$5,701,829)	\$ 5,544,124	\$ 6,042,303
Equity securities, available for sale, at fair value (cost: 2011 – \$9,627; 2010 – \$17,964)	8,269	19,407
Trading account assets, at fair value	25,843	22,705
Policy loans	1,050,878	1,061,607
Short-term investments	283,281	246,904
Commercial mortgage and other loans	1,406,492	1,275,022
Other long-term investments	268,486	131,994
Total investments	8,587,373	8,799,942
Cash and cash equivalents	287,423	364,999
Deferred policy acquisition costs	2,545,600	2,693,689
Accrued investment income	86,020	92,806
Reinsurance recoverables	5,729,116	2,727,161
Receivables from parents and affiliates	195,543	249,339
Deferred sales inducements	542,742	537,943
Income taxes receivable	76,066	—
Other assets	44,555	53,375
Separate account assets	58,156,771	43,269,091
TOTAL ASSETS	76,251,209	58,788,345
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances	7,811,674	7,511,987
Future policy benefits and other policyholder liabilities	5,294,308	3,327,549
Cash collateral for loaned securities	153,651	76,574
Securities sold under agreements to repurchase	40,491	2,957
Income taxes payable	—	307,778
Short-term debt to affiliates	129,000	—
Long-term debt to affiliates	1,172,000	895,000
Payables to parent and affiliates	3,377	41,910
Other liabilities	694,497	475,489
Separate account liabilities	58,156,771	43,269,091
TOTAL LIABILITIES	73,455,769	55,908,335
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 12)		
EQUITY		
Common stock, (\$10 par value; 1,000,000 shares, authorized; 250,000 shares, issued and outstanding)	2,500	2,500
Additional paid-in capital	836,021	792,226
Retained earnings	1,743,291	1,902,185
Accumulated other comprehensive income	213,628	183,099
TOTAL EQUITY	2,795,440	2,880,010
TOTAL LIABILITIES AND EQUITY	\$ 76,251,209	\$ 58,788,345

See Notes to Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years Ended December 31, 2011, 2010 and 2009 (in thousands)

	2011	2010	2009
REVENUES			
Premiums	\$ 72,787	\$ 66,392	\$ 71,593
Policy charges and fee income	1,109,495	591,047	652,034
Net investment income	439,950	438,244	406,040
Asset administration fees	203,508	81,358	34,004
Other income	43,861	51,319	45,841
Realized investment gains (losses), net:			
Other-than-temporary impairments on fixed maturity securities	(71,348)	(120,637)	(97,552)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income	62,379	108,826	65,656
Other realized investment gains (losses), net	271,052	122,445	(437,288)
Total realized investment gains (losses), net	262,083	110,634	(469,184)
TOTAL REVENUES	<u>2,131,684</u>	<u>1,338,994</u>	<u>740,328</u>
BENEFITS AND EXPENSES			
Policyholders' benefits	312,211	(891)	160,333
Interest credited to policyholders' account balances	502,585	250,517	271,379
Amortization of deferred policy acquisition costs	973,203	66,428	230,208
General, administrative and other expenses	697,884	505,956	333,340
TOTAL BENEFITS AND EXPENSES	<u>2,485,883</u>	<u>822,010</u>	<u>995,260</u>
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	<u>(354,199)</u>	<u>516,984</u>	<u>(254,932)</u>
Income taxes			
Current	42,474	157,318	93,658
Deferred	(263,930)	(29,219)	(248,231)
Income tax expense (benefit)	<u>(221,456)</u>	<u>128,099</u>	<u>(154,573)</u>
NET INCOME (LOSS)	<u>\$ (132,743)</u>	<u>\$ 388,885</u>	<u>\$ (100,359)</u>
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	(178)	(195)	349
Unrealized investment gains (losses) for the period	122,946	97,392	357,688
Reclassification adjustment for (gains) losses included in net income	(75,822)	46,532	34,650
Net unrealized investment gains (losses)	<u>47,124</u>	<u>143,924</u>	<u>392,338</u>
Other comprehensive income (loss), before tax:	46,946	143,729	392,687
Less: Income tax expense (benefit) related to items of other comprehensive income	16,417	50,137	135,293
Impact of adoption of new guidance for other-than-temporary impairments of debt securities, net of taxes	—	—	19,536
Other comprehensive income (loss), net of tax:	<u>30,529</u>	<u>93,592</u>	<u>276,930</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (102,214)</u>	<u>\$ 482,477</u>	<u>\$ 176,571</u>

See Notes to Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Stockholder's Equity
Years Ended December 31, 2011, 2010 and 2009 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2008	<u>\$ 2,500</u>	<u>\$815,664</u>	<u>\$2,046,712</u>	<u>\$ (137,135)</u>	<u>\$2,727,741</u>
Cumulative effect of adoption of accounting principle			(352,589)	(30,752)	(383,341)
Contributed Capital	—	13,194	—		13,194
Impact of adoption of new guidance for other-than-temporary impairments of debt securities, net of taxes	—	—	19,536	(19,536)	—
Comprehensive income:					
Net income (loss)	—	—	(100,359)	—	(100,359)
Other comprehensive income (loss), net of tax	—	—	—	276,930	276,930
Total comprehensive income					176,571
Balance, December 31, 2009	<u>\$ 2,500</u>	<u>\$828,858</u>	<u>\$1,613,300</u>	<u>\$ 89,507</u>	<u>\$2,534,165</u>
Contributed Capital	—	10	—	—	10
Affiliated Asset Transfers	—	(36,642)	—	—	(36,642)
Dividend to Parent	—	—	(100,000)	—	(100,000)
Comprehensive income:					
Net income	—	—	388,885	—	388,885
Other comprehensive income (loss), net of tax	—	—	—	93,592	93,592
Total comprehensive income					482,477
Balance, December 31, 2010	<u>\$ 2,500</u>	<u>\$792,226</u>	<u>\$1,902,185</u>	<u>\$ 183,099</u>	<u>\$2,880,010</u>
Contributed Capital- Parent/Child Asset Transfers	—	3,543	—	—	3,543
Affiliated Asset Transfers	—	40,252	(26,151)	—	14,101
Comprehensive income:					
Net income (loss)	—	—	(132,743)	—	(132,743)
Other comprehensive income (loss), net of tax	—	—	—	30,529	30,529
Total comprehensive income					(102,214)
Balance, December 31, 2011	<u>\$ 2,500</u>	<u>\$836,021</u>	<u>\$1,743,291</u>	<u>\$ 213,628</u>	<u>\$2,795,440</u>

See Notes to Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2011, 2010 and 2009 (in thousands)

	2011 Restated	2010	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:			
Net income (loss)	\$ (132,743)	\$ 388,885	\$ (100,359)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Policy charges and fee income	(127,683)	(204,264)	(265,669)
Interest credited to policyholders' account balances	502,585	250,517	271,379
Realized investment (gains) losses, net	(262,083)	(110,634)	469,184
Amortization and other non-cash items	(68,098)	(20,870)	(10,451)
Change in:			
Future policy benefits and other insurance liabilities	870,582	728,898	475,721
Reinsurance recoverables	(798,474)	(819,599)	(533,781)
Accrued investment income	6,785	(2,686)	(10,959)
Receivables from parent and affiliates	46,595	(37,402)	94,287
Payables to parent and affiliates	(48,064)	7,754	(41,496)
Deferred policy acquisition costs	(123,100)	(839,806)	(199,050)
Income taxes payable	(412,217)	(56,052)	(86,464)
Deferred sales inducements	(289,642)	(246,006)	(94,526)
Other, net	160,375	(34,532)	(16,104)
Cash flows from (used in) operating activities	\$ (675,182)	\$ (995,797)	\$ (48,288)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available for sale	\$ 1,069,922	\$ 1,843,933	\$ 1,673,613
Short-term investments	1,167,039	1,069,535	775,481
Policy loans	122,721	115,225	150,744
Commercial mortgage and other loans	82,098	64,520	46,286
Other long-term investments	10,612	24,443	1,761
Equity securities, available for sale	10,355	15,978	19,541
Trading account assets, at fair value	5,174	4,527	5
Payments for the purchase/origination of:	—	—	—
Fixed maturities, available for sale	(1,135,456)	(1,846,086)	(2,443,789)
Short-term investments	(1,203,342)	(1,143,338)	(872,256)
Policy loans	(102,230)	(119,752)	(117,727)
Commercial mortgage and other loans	(204,951)	(305,789)	(230,550)
Other long-term investments	(70,641)	(62,979)	(7,253)
Equity securities, available for sale	(8,528)	(6,777)	(19,636)
Trading account assets, at fair value	—	—	(13,301)
Notes receivable from parent and affiliates, net	6,842	55,863	(143,419)
Other	2,757	4,852	7,817
Cash flows from (used in) investing activities	\$ (247,628)	\$ (285,845)	\$ (1,172,683)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Policyholders' account deposits	\$ 3,044,607	\$ 3,092,710	\$ 1,937,462
Ceded policyholders' account deposits	(117,916)	—	—
Policyholders' account withdrawals	(2,555,035)	(2,328,806)	(1,223,565)
Ceded policyholders' account withdrawals	8,824	—	—
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	114,612	(128,177)	53,994
Dividend to parent	—	(100,000)	—
Contributed capital (including parent/child asset transfer)	3,543	10	—
Net change in financing arrangements (maturities 90 days or less)	69,599	72,793	1,146
Net change in long-term borrowing	277,000	895,000	—
Cash flows from (used in) financing activities	\$ 845,234	\$ 1,503,530	\$ 769,037
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,576)	221,888	(451,934)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	364,999	143,111	595,045
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 287,423	\$ 364,999	\$ 143,111
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes (refunded) paid	\$ 166,606	\$ 185,220	\$ (68,108)
Interest paid	\$ 33,104	\$ 3,212	\$ 8

See Notes to Consolidated Financial Statements

Significant Non Cash Transactions

Cash Flows from Investing Activities in the 2011 Consolidated Statement of Cash Flows excludes \$313 million of increases in fixed maturities, available for sale related to a non-cash transfer of assets to the Company. These assets were received as consideration of premium due to the Company for the recapture of policies issued prior to January 1, 2011 previously reinsured by UPARC, an affiliate (See Note 13).

Cash Flows from Investing Activities in the 2011 Consolidated Statement of Cash Flows also excludes \$1,054 million of decreases in fixed maturities available for sale related to the coinsurance transaction with PAR U, an affiliate (See Note 13). The assets transferred included \$1,009 million of consideration for the initial premium due under the coinsurance agreement with this affiliate and \$45 million to Prudential Insurance, the Company's parent company, to settle tax expenses arising from this coinsurance transaction.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company, or the “Company,” is a wholly owned subsidiary of The Prudential Insurance Company of America, or “Prudential Insurance,” which in turn is an indirect wholly owned subsidiary of Prudential Financial, Inc., or “Prudential Financial.” Pruco Life Insurance Company was organized in 1971 under the laws of the State of Arizona. It is licensed to sell life insurance and annuities in the District of Columbia, Guam, and in all States except New York.

The Company has three subsidiaries, including one wholly owned life insurance subsidiary, Pruco Life Insurance Company of New Jersey, or “PLNJ,” and two subsidiaries formed in 2009 for the purpose of holding certain commercial loan investments. Pruco Life Insurance Company and its subsidiaries are together referred to as the Company and all financial information is shown on a consolidated basis. Two additional subsidiaries formerly owned by the Company for the purpose of acquiring fixed income investments were liquidated in 2009.

PLNJ is a stock life insurance company organized in 1982 under the laws of the state of New Jersey. It is licensed to sell life insurance and annuities only in New Jersey and New York.

Beginning in March 2010, Prudential Annuities Life Assurance Corporation (“PALAC”), an affiliate of the Company, ceased offering its existing variable annuity products (and where offered, the companion market value adjustment option) to new investors upon the launch of a new product in the Company. In general, the new product line offers the same optional living benefits and optional death benefits as offered by PALAC’s existing variable annuities. However, subject to applicable contractual provisions and administrative rules, PALAC will continue to accept subsequent purchase payments on in force contracts under existing annuity products. These initiatives were implemented to create operational and administrative efficiencies by offering a single product line of annuity products from a more limited group of legal entities. In addition, by limiting its variable annuity offerings to a single product line sold through one insurer (and its affiliate, for New York sales), the Prudential Annuities business unit of Prudential Financial expects to convey a more focused, cohesive image in the marketplace.

Basis of Presentation

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or “U.S. GAAP.” The Company has extensive transactions and relationships with Prudential Insurance and other affiliates, (as more fully described in Note 13. Due to these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

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; amortization of deferred sales inducements; future policy benefits including guarantees; valuation of investments including derivatives and the recognition of other-than-temporary impairments; provision for income taxes and valuation of deferred tax assets; and reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

Reclassifications

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

Restatement of Consolidated Statement of Cash Flows

The Company has restated the Consolidated Statement of Cash Flows for the year ended December 31, 2011 included in the Company’s 2011 Annual Report on Form 10-K. While the restatement affects the subtotals of cash flows from operating, investing and financing activities, it has no impact on the net increase (decrease) in cash and cash equivalents for the previously reported period. The restatement also has no impact on the Company’s Consolidated Statements of Financial Position, Consolidated Statements of Operations or Consolidated Statements of Stockholder’s Equity as of the end of or for any previously reported period.

The restatement primarily corrects the presentation of the settlements of certain reinsurance transactions between the Company and its affiliates that occurred during the quarter ended December 31, 2011. The settlements were made by transferring fixed maturity securities, however, the Consolidated Statement of Cash Flows for the year ended December 31, 2011 reflected these settlements as if they were made with cash. The correct presentation is to exclude these non-cash transactions from the Consolidated Statement of Cash Flows and disclose them in the Consolidated Financial Statements. Primarily as a result of the incorrect presentation of these non-cash transactions, Cash Flows used in Operating Activities was overstated by \$768.2 million, Cash Flows from Investing Activities was overstated by \$635.1 million and Cash Flows from Financing Activities was overstated by \$133.1 million. These transactions are fully described in Note 13.

For further detail on the 2011 Consolidated Statement of Cash Flows, as reported and as restated, refer to Note 2.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments and Investment Related Liabilities

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

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as "available for sale" are carried at fair value. See Note 10 for additional information regarding the determination of fair value. 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, deferred sales inducements and future policy benefits that would result from the realization of unrealized gains and losses, are included in "Accumulated other comprehensive income (loss)."

Equity securities available for sale are comprised of common stock, and non-redeemable 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, deferred sales inducements and future policy benefits 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.

Trading account assets, at fair value, consist primarily of asset-backed securities, commercial mortgage-backed securities and perpetual preferred stock whose fair values are determined consistent with similar instruments described above under "Fixed Maturity Securities." Realized and unrealized gains and losses for these investments are reported in "Other income." Interest and dividend income from these investments is reported in "Net investment income."

Commercial mortgage and other loans consist of commercial mortgage loans and agricultural 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). 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 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 3 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 loan and agricultural loan portfolios 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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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 3 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.

The allowance for loan 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 loans and agricultural 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 loans and agricultural 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. "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.

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.

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 loan transactions the Company transfers 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 subsidiary 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, administrative and other expenses").

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 generally 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, administrative and other expenses").

Other long-term investments consist of the derivatives, the Company's investments in joint ventures and limited partnerships in which the Company does not exercise control, as well as investments in the Company's own separate accounts, which are carried at fair value, and investment real estate. Joint venture and partnership interests are generally accounted for using the equity method of accounting, except in instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies. In such instances, the Company applies the cost method of accounting. The Company's share of net income from investments in joint ventures and partnerships is generally included in "Net investment income."

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

“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. 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.

Realized investment gains (losses) are computed using the specific identification method. 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 and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment.

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

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.

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, 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 issues with maturities of three months or less when purchased. The Company also engages in overnight borrowing and lending of funds with Prudential Financial and affiliates which are considered cash and cash equivalents.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Deferred Policy Acquisition Costs

Costs that are directly related to the production of new insurance and annuity products are deferred to the extent such costs are deemed recoverable from future profits. Such deferred policy acquisition costs (“DAC”) include 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 directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. See below under “Adoption of New Accounting Pronouncements” for a discussion of the new authoritative guidance retrospectively adopted effective January 1, 2012, which is reflected in the Consolidated Financial Statements. 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 capitalized amounts do not exceed the present value of anticipated gross profits 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).”

Policy acquisition costs for interest sensitive and variable life products and fixed and variable deferred annuity products are deferred and amortized over the expected life of the contracts (approximately 25 – 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, regardless of which affiliated legal entity this activity occurs. In calculating gross profits, profits and losses related to contracts issued by the Company that are reported in affiliated legal entities other than the Company as a result of, for example, reinsurance agreements with those affiliated entities are also included. The Company is an indirect subsidiary of Prudential Financial (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, including reinsurance agreements, as described in Note 13. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces a DAC amortization pattern representative of the total economics of the products. The effect of changes to estimated gross profits on unamortized deferred acquisition costs 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 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 non-integrated 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.

Reinsurance recoverables

Reinsurance recoverables include corresponding payables and receivables associated with reinsurance arrangements with affiliates. For additional information about these arrangements see Note 13.

Separate Account Assets and Liabilities

Separate account assets are reported at fair value and represent segregated funds, which are invested for certain policyholders and other customers. The assets consist primarily of equity securities, fixed maturities, real estate related investments, real estate mortgage loans and 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 7 to the Consolidated Financial Statements for additional information regarding separate account arrangements with contractual guarantees. The investment income and realized investment gains or losses from separate accounts generally accrue to the policyholders and are not included in the Consolidated Statements of Operations. Mortality, policy administration and surrender charges assessed against the accounts are included in “Policy charges and fee income.” Asset administration fees charged to the accounts are included in “Asset administration fees.”

Deferred sales inducements

The Company provides sales inducements to contractholders, which primarily reflect an up-front bonus added to the contractholder’s initial deposit for certain annuity contracts. These costs are deferred and recognized in “Deferred sales inducements”. They are amortized 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 capitalized amounts do not exceed the present value of anticipated gross profits. The Company records amortization of deferred sales inducements in “Interest credited to policyholders’ account balances.”

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Other Assets and Other Liabilities

Other assets consist primarily of premiums due, certain restricted assets, and receivables resulting from sales of securities that had not yet settled at the balance sheet date. Other liabilities consist primarily of accrued expenses, technical overdrafts, derivatives, and payables resulting from purchases of securities that had not yet been settled at the balance sheet date.

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 life insurance and annuity 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 on our term life products. 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 products 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. 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 7, 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 policyholders' withdrawals and other charges assessed against the account balance. These policyholders' account balances also include a provision for benefits under non-life contingent payout annuities and certain unearned revenues.

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, 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 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 7. The Company also provides contracts with certain living benefits which are accounted for as embedded derivatives. These contracts are discussed in further detail in Note 7.

Amounts received as payment for interest-sensitive contracts, 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. Premiums, benefits and expenses are stated net of reinsurance ceded to other companies. Estimated reinsurance recoverables and the cost of reinsurance are recognized using assumptions consistent with those used to account for the underlying policies.

Asset Administration Fees

The Company receives asset administration fee income from policyholders' account balances invested in The Prudential Series Funds or, "PSF," which are a portfolio of mutual fund investments related to the Company's separate account products. Also, the Company receives fee income calculated on contractholder separate account balances invested in the Advanced Series Trust Funds (see Note 13 to the Consolidated Financial Statements). In addition, the Company receives fees from policyholders' account balances invested in funds managed by companies other than affiliates of Prudential Insurance. Asset administration fees are recognized as income when earned.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, financial indices, or the values of securities. Derivative financial instruments generally used by the Company include swaps, futures, forwards and options which are contracted in the over-the-counter market with an affiliate. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models. Values can be affected by changes in interest rates, financial indices, values of securities, credit spreads, market volatility, expected returns, non-performance risks 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.

Derivatives are used to manage the characteristics of the Company's asset/liability mix to manage the interest rate and currency characteristics of assets or liabilities. 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.

Derivatives are recorded either as assets, within "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 its affiliated counterparty for which a master netting arrangement has been executed. As discussed below and in Note 11, all realized and unrealized changes in fair value of derivatives, with the exception of the effective portion of cash flow hedges are recorded in current earnings. Cash flows from these derivatives are reported in the operating and investing activities sections in the Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

The Company designates derivatives as either (1) 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), or (2) 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 cash flow hedges to specific assets and liabilities on the balance sheet or to forecasted transactions.

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.

If it is determined that a derivative no longer qualifies as an effective 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 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." 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 "Trading account assets, at fair value."

The Company sells variable annuity contracts that include optional living benefit features that may be treated from an accounting perspective as embedded derivatives. The Company has reinsurance agreements to transfer the risk related to certain of these embedded derivatives to an affiliate, Pruco Reinsurance Ltd. ("Pruco Re"). The embedded derivatives related to the living benefit features and the related reinsurance agreements are carried at fair value and included in "Future policy benefits and other policyholder liabilities" and "Reinsurance recoverables," respectively. Changes in the fair value are determined using valuation models as described in Note 10, and are recorded in "Realized investment gains (losses), net."

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

The Company, excluding its subsidiaries, also sells certain universal life products that contain a no lapse guarantee provision that is reinsured with an affiliate, Universal Prudential Arizona Reinsurance Company (“UPARC”). The reinsurance of this no lapse guarantee results in an embedded derivative that incurs market risk primarily in the form of interest rate risk. Interest rate sensitivity can result in changes in the value of the underlying contractual guarantees that are carried at fair value and included in “Reinsurance recoverable,” and changes in “Realized investment gains (losses), net.” In the third quarter of 2011, the Company amended its reinsurance agreement resulting in a recapture of a portion of this business (See Note 13) effective July 1, 2011. Pursuant to the recapture amendment, the settlement of the recapture premium occurred subsequent to the effective date of the recapture. As a result, the recapture premium was treated as if settled on the effective date and adjusted for the time elapsed between this date and the settlement date. This adjustment was equal to the earned interest and changes in market values from the effective date through the settlement date related to fixed maturity securities from an asset portfolio within UPARC. This settlement feature was accounted for as a derivative.

Concurrent with the recapture discussed above, the Company entered into a new coinsurance agreement with an affiliate, Prudential Arizona Reinsurance Universal Company, (“PAR U”) effective July 1, 2011. The settlement of the initial coinsurance premium also occurred subsequent to the effective date of the coinsurance agreement and contains a settlement provision similar to the recapture premium, discussed above. The adjustment to the initial coinsurance premium was equal to the earned interest and changes in market values from the effective date through settlement date related to fixed maturity securities from both an asset portfolio within the Company, as well as an asset portfolio within UPARC. The settlement feature of this agreement was accounted for as a derivative (See Note 13 for additional information about this agreement).

Income Taxes

The Company is a member of the consolidated federal income tax return of Prudential Financial and primarily files separate company state and local tax returns. Pursuant to the tax allocation arrangement with Prudential Financial, total federal income tax expense is determined on a separate company basis. Members with losses record tax benefits to the extent such losses are recognized in the consolidated federal tax provision.

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 and 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 9 for additional information regarding income taxes.

Adoption of New Accounting Pronouncements

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 10 and Note 11.

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 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 3. 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 3.

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Pruco Life Insurance Company Notes to Consolidated Financial Statements—(Continued)

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

Effective January 1, 2012 the Company adopted, retrospectively, 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. The Company opted to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement of comprehensive income. The Consolidated Financial Statements included herein reflect the adoption of this updated guidance.

Effective January 1, 2012, the Company adopted retrospectively new 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. Prior period financial information presented in these financial statements has been adjusted to reflect the retrospective adoption of the amended guidance. The impact of the retrospective adoption of this guidance on previously reported December 31, 2011 and December 31, 2010 balances was a reduction in “Deferred policy acquisition costs” of \$672 and \$684 million, an increase in “Policyholders’ Account Balances” of \$3 and \$3 million, and a reduction in “Total equity” of \$469 and \$446 million, respectively. As of December 31, 2011, “Other Liabilities” increased \$48 million and “Reinsurance Recoverables” increased \$2 million related to the impact of this guidance on the 2011 coinsurance agreement with PAR U (see Note 8). The impact of the retrospective adoption of this guidance on previously reported income from continuing operations before income taxes for the years ended December 31, 2011, 2010 and 2009 was a decrease of \$34, \$125 and \$53 million, respectively. The lower level of costs now qualifying for deferral will be only partially offset by a lower level of amortization of “Deferred policy acquisition costs,” and, as such, will initially result in lower earnings in future periods primarily reflecting lower deferrals of 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 has no impact on the Company’s cash flows.

The following tables present amounts as previously reported in 2011, the effect of the change due to the retrospective adoption of the amended guidance related to the deferral of acquisition costs as described above within the “Effect of Change” column. Also included within the Statement of Cash Flows table within the “Impact of Restatement” column is the impact of the restatement described in Note 1 for the year ended December 31, 2011.

Consolidated Statements of Financial Position:

	December 31, 2011		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
Deferred policy acquisition costs	\$ 3,217,508	\$(671,908)	\$ 2,545,600
Reinsurance recoverables	5,727,610	1,506	5,729,116
Income taxes receivable (1)	—	76,066	76,066
Other assets	44,557	(2)	44,555
TOTAL ASSETS	76,845,547	(594,338)	76,251,209
Policyholders’ account balances	7,808,840	2,834	7,811,674
Income taxes payable (1)	176,517	(176,517)	—
Other liabilities	646,569	47,928	694,497
TOTAL LIABILITIES	73,581,524	(125,755)	73,455,769
Retained earnings	2,233,698	(490,407)	1,743,291
Accumulated other comprehensive income	191,804	21,824	213,628
TOTAL EQUITY	3,264,023	(468,583)	2,795,440
TOTAL LIABILITIES AND EQUITY	\$76,845,547	\$(594,338)	\$76,251,209

- (1) Income taxes reported in December 31, 2011 was in a payable position. The effect of the change converted the balance to a receivable position and was moved into the asset section of the balance sheet.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

	December 31, 2010		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
Deferred policy acquisition costs	\$ 3,377,557	\$(683,868)	\$ 2,693,689
TOTAL ASSETS	59,472,213	(683,868)	58,788,345
Policyholders' account balances	7,509,169	2,818	7,511,987
Income taxes	548,280	(240,502)	307,778
TOTAL LIABILITIES	56,146,019	(237,684)	55,908,335
Retained earnings	2,370,525	(468,340)	1,902,185
Accumulated other comprehensive income	160,943	22,156	183,099
TOTAL EQUITY	3,326,194	(446,184)	2,880,010
TOTAL LIABILITIES AND EQUITY	\$59,472,213	\$(683,868)	\$58,788,345

Consolidated Statements of Operations:

	Year Ended December 31, 2011		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
REVENUES			
Policy charges and fee income	\$1,109,123	\$ 372	\$1,109,495
Other income	42,598	1,263	43,861
Total revenues	2,130,049	1,635	2,131,684
BENEFITS AND EXPENSES			
Amortization of deferred policy acquisition costs	1,114,843	(141,640)	973,203
General, administrative and other expenses	520,665	177,219	697,884
Total benefits and expenses	2,450,304	35,579	2,485,883
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(320,255)	(33,944)	(354,199)
Income tax expense (benefit)	(209,579)	(11,877)	(221,456)
NET INCOME (LOSS)	\$ (110,676)	\$ (22,067)	\$ (132,743)

	Year Ended December 31, 2010		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
REVENUES			
Policy charges and fee income	\$ 589,051	\$ 1,996	\$ 591,047
Total revenues	1,336,998	1,996	1,338,994
BENEFITS AND EXPENSES			
Amortization of deferred policy acquisition costs	93,125	(26,697)	66,428
General, administrative and other expenses	352,366	153,590	505,956
Total benefits and expenses	695,117	126,893	822,010
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	641,881	(124,897)	516,984
Income tax expense (benefit)	171,813	(43,714)	128,099
NET INCOME (LOSS)	\$ 470,068	\$ (81,183)	\$ 388,885

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

	Year Ended December 31, 2009		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
REVENUES			
Policy charges and fee income	\$ 653,134	\$ (1,100)	\$ 652,034
Total revenues	741,428	(1,100)	740,328
BENEFITS AND EXPENSES			
Amortization of deferred policy acquisition costs	294,286	(64,078)	230,208
General, administrative and other expenses	217,181	116,159	333,340
Total benefits and expenses	943,179	52,081	995,260
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(201,751)	(53,181)	(254,932)
Income tax expense (benefit)	(135,960)	(18,613)	(154,573)
NET INCOME (LOSS)	\$ (65,791)	\$ (34,568)	\$ (100,359)

Consolidated Statements of Cash Flows:

	Year Ended December 31, 2011			
	As Previously Reported	Effect of Change	Impact of Restatement	As Currently Reported
	(in thousands)			
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net income	\$ (110,676)	\$(22,067)	\$ —	\$ (132,743)
Policy charges and fee income	(213,804)	(363)	86,484	(127,683)
Change in:				
Reinsurance recoverables	(1,951,987)	(1,006)	1,154,519	(798,474)
Payable to parent and affiliates	(38,856)		(9,208)	(48,064)
Deferred policy acquisition costs	170,673	(12,613)	(281,160)	(123,100)
Income taxes payable	(441,534)	(11,877)	41,194	(412,217)
Other, net	336,092	47,926	(223,643)	160,375
Cash flows from (used in) operating activities	(1,443,368)	—	768,186	(675,182)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Proceeds from the sale/maturity/prepayment of:				
Fixed maturities available for sale	1,705,018	—	(635,096)	1,069,922
Cash flows from (used in) investing activities	387,468	—	(635,096)	(247,628)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Ceded policyholders' account deposits	—	—	(117,916)	(117,916)
Policyholders' account withdrawals	(2,531,037)	—	(23,998)	(2,555,035)
Ceded policyholders' account withdrawals	—	—	8,824	8,824
Cash flows from (used in) financing activities	\$ 973,324	\$ —	\$ (133,090)	\$ 845,234

	Year Ended December 31, 2010		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss)	\$ 470,068	\$ (81,183)	\$ 388,885
Policy charges and fee income	(202,268)	(1,996)	(204,264)
Change in:			
Deferred policy acquisition costs	(966,699)	126,893	(839,806)
Income taxes payable	(12,338)	(43,714)	(56,052)
Cash flows from (used in) operating activities	\$(995,797)	\$ —	\$ (995,797)

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

	Year Ended December 31, 2009		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss)	\$ (65,791)	\$(34,568)	\$ (100,359)
Policy charges and fee income	(266,769)	1,100	(265,669)
Change in:			
Deferred policy acquisition costs	(251,131)	52,081	(199,050)
Income taxes payable	(67,851)	(18,613)	(86,464)
Cash flows from (used in) operating activities	\$ (48,288)	\$ —	\$ (48,288)

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 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.

3. 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 (in thousands)	Fair Value	Other-than- temporary impairments in AOCI (4)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 144,083	\$ 14,321	\$ 4	\$ 158,400	\$ —
Obligations of U.S. states and their political subdivisions	43,830	5,808	—	49,638	—
Foreign government bonds	47,910	6,615	4	54,521	—
Public utilities	589,574	63,283	1,497	651,360	—
All other corporate securities	3,145,363	252,186	6,956	3,390,593	(1,285)
Asset-backed securities (1)	376,505	19,235	22,495	373,245	(27,122)
Commercial mortgage-backed securities	505,310	37,015	2	542,323	—
Residential mortgage-backed securities (2)	298,831	25,550	337	324,044	(1,296)
Total fixed maturities, available-for-sale	<u>\$5,151,406</u>	<u>\$424,013</u>	<u>\$ 31,295</u>	<u>\$5,544,124</u>	<u>\$ (29,703)</u>
Equity securities, available-for-sale					
Common Stocks:					
Public utilities	\$ 90	\$ 5	\$ 23	\$ 71	
Industrial, miscellaneous & other	7,100	597	1,742	5,956	
Non-redeemable preferred stocks	2,437	6	201	2,242	
Total equity securities, available-for-sale (3)	<u>\$ 9,627</u>	<u>\$ 608</u>	<u>\$ 1,966</u>	<u>\$ 8,269</u>	

(1) Includes credit tranch 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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

- (3) During the third quarter of 2011, perpetual preferred stocks of \$8.4 million were reclassified to “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 \$11 million of net unrealized gains (losses) on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

	December 31, 2010				Other-than-temporary impairments in AOCI (3)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in thousands)	Fair Value	
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 223,442	\$ 4,563	\$ 43	\$ 227,962	\$ —
Obligations of U.S. states and their political subdivisions	25,126	66	1,063	24,129	—
Foreign government bonds	48,725	5,984	—	54,709	—
Public utilities	494,163	40,646	2,412	532,397	—
All other corporate securities	3,596,805	252,050	11,055	3,837,800	(694)
Asset-backed securities (1)	417,339	22,316	30,077	409,578	(37,817)
Commercial mortgage-backed securities	546,056	34,711	247	580,520	—
Residential mortgage-backed securities (2)	350,173	25,228	193	375,208	(1,437)
Total fixed maturities, available-for-sale	<u>\$5,701,829</u>	<u>\$385,564</u>	<u>\$ 45,090</u>	<u>\$6,042,303</u>	<u>\$ (39,948)</u>
Equity securities available-for-sale					
Common Stocks:					
Public utilities	\$ 90	\$ 14	\$ —	\$ 104	
Banks, trusts & insurance companies	—	—	—	—	
Industrial, miscellaneous & other	7,324	2,545	309	9,560	
Non-redeemable preferred stocks	2,438	—	1,390	1,048	
Perpetual preferred stocks	8,112	793	210	8,695	
Total equity securities, available-for-sale	<u>\$ 17,964</u>	<u>\$ 3,352</u>	<u>\$ 1,909</u>	<u>\$ 19,407</u>	

- (1) Includes credit tranch 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 \$15 million of net unrealized gains (losses) on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

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

	Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	\$ 321,169	\$ 324,872
Due after one year through five years	1,556,554	1,663,138
Due after five years through ten years	1,371,340	1,503,916
Due after ten years	721,697	812,586
Asset-backed securities	376,505	373,245
Commercial mortgage-backed securities	505,310	542,323
Residential mortgage-backed securities	298,831	324,044
Total	<u>\$ 5,151,406</u>	<u>\$ 5,544,124</u>

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.

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Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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

	2011	2010 (in thousands)	2009
Fixed maturities, available-for-sale			
Proceeds from sales	\$218,200	\$788,657	\$ 572,902
Proceeds from maturities/repayments	836,724	919,875	1,100,012
Gross investment gains from sales, prepayments and maturities	83,600	45,098	17,375
Gross investment losses from sales and maturities	(411)	(2,497)	(19,291)
Equity securities, available-for-sale			
Proceeds from sales	\$ 6,397	\$ 6,978	\$ 14,408
Proceeds from maturities/repayments	3,958	9,000	5,000
Gross investment gains from sales	3,857	348	1,785
Gross investment losses from sales	—	(367)	(363)
Fixed maturity and equity security impairments			
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings (1)	\$ (8,969)	\$ (11,811)	\$ (31,896)
Writedowns for other-than-temporary impairment losses on equity securities	(2,255)	(147)	(2,259)

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

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

	Year Ended December 31, 2011 (in thousands)	Year Ended December 31, 2010 (in thousands)
Balance, beginning of period	\$ 36,820	\$ 42,943
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(7,456)	(7,144)
Credit loss impairments previously recognized on securities impaired to fair value during the period (1)	(4,055)	(7,158)
Credit loss impairment recognized in the current period on securities not previously impaired	403	26
Additional credit loss impairments recognized in the current period on securities previously impaired	5,630	8,950
Increases due to the passage of time on previously recorded credit losses	1,487	2,222
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1,322)	(3,019)
Balance, end of period	<u>\$ 31,507</u>	<u>\$ 36,820</u>

- (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.

Trading Account Assets

The following table provides information relating to trading account assets, at fair value as of the dates indicated:

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Fixed maturities:				
Asset-backed securities	\$ 16,597	\$17,419	\$ 16,074	\$17,525
Commercial mortgage-backed securities	4,978	5,062	4,950	5,180
Total fixed maturities	21,575	22,481	21,024	22,705
Equity securities (1)	3,135	3,362	—	—
Total trading account assets	\$ 24,710	\$25,843	\$ 21,024	\$22,705

- (1) During 2011, perpetual preferred stocks of \$8.4 million were reclassified from “Equity Securities, available-for-sale”. Prior periods were not restated.

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Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

The net change in unrealized gains (losses) from trading account assets still held at period end, recorded within “Other income” was (\$0.5) million, (\$0.2) million and \$3.2 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Commercial Mortgage and Other Loans

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

	December 31, 2011		December 31, 2010	
	Amount	% of	Amount	% of
	(in thousands)	Total	(in thousands)	Total
Commercial mortgage and other loans by property type:				
Industrial buildings	\$ 261,699	18.4%	\$ 226,174	17.4%
Retail	453,352	31.9	438,072	33.8
Apartments/Multi-Family	218,524	15.4	203,749	15.7
Office buildings	223,587	15.8	208,699	16.1
Hospitality	61,910	4.4	57,409	4.4
Other	97,383	6.9	85,133	6.6
Total commercial mortgage loans by property type	1,316,455	92.8	1,219,236	94.0
Agricultural property loans	102,850	7.2	77,214	6.0
Total commercial mortgage and agricultural loans by property type	1,419,305	100.0%	1,296,450	100.0%
Valuation allowance	(12,813)		(21,428)	
Total net commercial and agricultural mortgage loans by property type	<u>\$ 1,406,492</u>		<u>\$ 1,275,022</u>	

The commercial mortgage and agricultural loans are geographically dispersed throughout the United States with the largest concentrations in California (21%), New Jersey (13%), Texas (8%) and Virginia (8%) at December 31, 2011.

Activity in the allowance for losses for all commercial mortgage and other loans, for the years ended December 31, 2011, 2010 and 2009, is as follows:

	<u>2011 (2)</u>	<u>2010 (2)</u>	<u>2009 (2)</u>
		(in thousands)	
Allowance for losses, beginning of year	\$21,428	\$25,742	\$ 8,173
Addition to / (release of) allowance of losses	(8,615)	(4,314)	17,569
Allowance for losses, end of year (1)	<u>\$12,813</u>	<u>\$21,428</u>	<u>\$25,742</u>

- (1) Agricultural loans represent \$0.4 million, \$0.4 million and \$0.0 million of the ending allowance at December 31, 2011, 2010 and 2009, respectively.
- (2) Valuation allowances for 2011 and 2010 are presented in a format consistent with new disclosure requirements under the updated guidance issued by FASB in 2011. Valuation allowances for 2009 are provided consistent with the prior presentation.

The following tables set forth the allowance for credit losses and the recorded investment in commercial mortgage and agricultural loans for the years ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
	Total Loans	
	(in thousands)	
Allowance for Credit Losses:		
Ending balance: individually evaluated for impairment (1)	\$ 5,743	\$ 10,536
Ending balance: collectively evaluated for impairment (2)	7,070	10,892
Total ending balance	\$ 12,813	\$ 21,428
Recorded Investment: (3)		
Ending balance: individually evaluated for impairment (1)	\$ 17,849	\$ 38,061
Ending balance: collectively evaluated for impairment (2)	1,401,456	1,258,389
Total ending balance, gross of reserves	<u>\$ 1,419,305</u>	<u>\$ 1,296,450</u>

- (1) There were no agricultural loans individually evaluated for impairments at December 31, 2011 and 2010.
- (2) Agricultural loans collectively evaluated for impairment had a recorded investment of \$103 million and \$77.2 million and related allowance of \$0.4 million at December 31, 2011 and 2010, respectively.
- (3) Recorded investment reflects the balance sheet carrying value gross of related allowance.

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Pruco Life Insurance Company Notes to Consolidated Financial Statements—(Continued)

Impaired loans include those loans for which it is probable that amounts due according to the contractual terms of the loan agreement will not all be collected. Impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses, as of December 31, 2011 and 2010 had a recorded investment and unpaid principal balance of \$17.8 million and \$38 million and related allowance of \$5.7 million and \$10.5 million, respectively, primarily related to the hospitality and other property types. At December 31, 2011 and 2010, the Company held no impaired agricultural loans. Net investment income recognized on these loans totaled \$0.5 million for the year ended December 31, 2011 and \$1 million for the year ended December 31, 2010.

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. As of December 31, 2011 and 2010, the Company held no such loans. See Note 2 for information regarding the Company's accounting policies for non-performing loans.

As described in Note 2 Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage and other loans. As of December 31, 2011 and 2010, 93% of the \$1.4 billion recorded investment and 88% of the \$1.3 billion recorded investment, respectively, had a loan-to-value ratio of less than 80%. As of December 31, 2011 and 2010, 95% of the recorded investment had a debt service coverage ratio of 1.1X or greater. As of December 31, 2011, approximately \$72 million or 5% of the recorded investment had a loan-to-value ratio greater than 100% or debt service coverage ratio less than 1.0X reflecting loans where the mortgage amount exceeds the collateral value or where current debt payments are greater than income from property operations; none of which related to agricultural loans. As of December 31, 2010, approximately \$86 million or 7% of the recorded investment had a loan-to-value ratio greater than 100% or debt service coverage ratio less than 1.0X; none of which related to agricultural loans.

As of December 31, 2011 and 2010, all commercial mortgage and other loans were in current status, with the exception of \$1.6 million and \$22.2 million, respectively, that were classified as past due, primarily related to other property types. As of December 31, 2011 and 2010, \$22.6 million and \$38.1 million, respectively, of commercial mortgage and other loans, were in non-accrual status based upon the recorded investment gross of allowance for credit losses, primarily related to hospitality and other property types. See Note 2 for further discussion regarding nonaccrual status loans. The Company defines current in its aging of past due commercial mortgage and agricultural loans as less than 30 days past due.

For the year ended December 31, 2011, there were no commercial mortgage and other loans sold or acquired.

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. The Company's outstanding investment related to commercial mortgage and other loans that have been restructured in a troubled debt restructuring is not material.

Other Long term Investments

"Other long-term investments" are comprised as follows at December 31:

	2011	2010
	(in thousands)	
Company's investment in Separate accounts	\$ 31,947	\$ 29,827
Joint ventures and limited partnerships	113,445	86,972
Derivatives	123,094	15,195
Total other long- term investments	<u>\$268,486</u>	<u>\$131,994</u>

Net Investment Income

Net investment income for the years ended December 31, was from the following sources:

	2011	2010	2009
	(in thousands)		
Fixed maturities, available for sale	\$300,850	\$313,036	\$306,535
Equity securities, available for sale	227	1,005	1,966
Trading account assets	1,582	1,156	1,086
Commercial mortgage and other loans	81,282	71,541	60,575
Policy loans	56,716	55,599	53,934
Short-term investments and cash equivalents	1,052	918	2,407
Other long-term investments	16,421	11,552	(6,700)
Gross investment income	458,130	454,807	419,803
Less: investment expenses	(18,180)	(16,563)	(13,763)
Net investment income	<u>\$439,950</u>	<u>\$438,244</u>	<u>\$406,040</u>

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Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Carrying value for non-income producing assets included in fixed maturities totaled \$9 million 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 (in thousands)	2009
Fixed maturities	\$ 74,220	\$ 30,790	\$ (33,813)
Equity securities	1,602	(166)	(837)
Commercial mortgage and other loans	8,615	1,379	(17,568)
Joint ventures and limited partnerships	(265)	—	(731)
Derivatives	177,855	78,577	(416,318)
Other	56	54	83
Realized investment gains (losses), net	\$262,083	\$110,634	\$(469,184)

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:

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 and Other Costs	Policy Holder Account Balances (in thousands)	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
Balance, December 31, 2008	\$ —	\$ —	\$ —	\$ —	\$ —
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(19,184)	1,446	—	6,208	(11,530)
Net investment gains (losses) on investments arising during the period	26,718	—	—	(9,252)	17,466
Reclassification adjustment for OTTI losses included in net income	9,704	—	—	(3,360)	6,344
Reclassification adjustment for OTTI gains excluded from net income(1)	(43,123)	—	—	14,932	(28,191)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs	—	14,629	—	(5,120)	9,509
Impact of net unrealized investment (gains) losses on Policyholders’ account balance	—	—	(7,993)	2,798	(5,195)
Balance, December 31, 2009	\$ (25,885)	\$ 16,075	\$ (7,993)	\$ 6,206	\$ (11,597)
Net investment gains (losses) on investments arising during the period	(6,744)	—	—	2,359	(4,385)
Reclassification adjustment for OTTI losses included in net income	7,954	—	—	(2,784)	5,170
Reclassification adjustment for OTTI gains excluded from net income(1)	(29)	—	—	10	(19)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs	—	(2,262)	—	792	(1,470)
Impact of net unrealized investment (gains) losses on Policyholders’ account balance	—	—	890	(312)	578
Balance, December 31, 2010	\$ (24,704)	\$ 13,813	\$ (7,103)	\$ 6,271	\$ (11,723)
Net investment gains (losses) on investments arising during the period	(3,779)	—	—	1,322	(2,457)
Reclassification adjustment for OTTI losses included in net income	9,623	—	—	(3,369)	6,254
Reclassification adjustment for OTTI gains excluded from net income(1)	212	—	—	(75)	137
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	(3,626)	—	1,268	(2,358)
Impact of net unrealized investment (gains) losses on Policyholders’ account balance	—	—	4,167	(1,459)	2,708
Balance, December 31, 2011	\$ (18,648)	\$ 10,187	\$ (2,936)	\$ 3,958	\$ (7,439)

(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.

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Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains/(Losses) on Investments(1)	Deferred Policy Acquisition Costs and Other Costs	Policy Holder Account Balances (in thousands)	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
Balance, December 31, 2008	\$ (331,900)	\$ 191,666	\$ (115,086)	\$ 87,285	\$ (168,035)
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(12,856)	538	—	4,312	(8,006)
Net investment gains (losses) on investments arising during the period	513,845	—	—	(177,932)	335,913
Reclassification adjustment for (gains) losses included in net income	24,946	—	—	(8,638)	16,308
Reclassification adjustment for OTTI losses excluded from net income(2)	43,123	—	—	(14,932)	28,191
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs	—	(335,032)	—	117,261	(217,771)
Impact of net unrealized investment (gains) losses on policyholders' account balances	—	—	175,577	(61,452)	114,125
Balance, December 31, 2009	\$ 237,158	\$ (142,828)	\$ 60,491	\$ (54,096)	\$ 100,725
Net investment gains (losses) on investments arising during the period	124,639	—	—	(43,618)	81,021
Reclassification adjustment for (gains) losses included in net income	38,578	—	—	(13,501)	25,077
Reclassification adjustment for OTTI losses excluded from net income(2)	29	—	—	(10)	19
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs	—	(51,330)	—	18,128	(33,202)
Impact of net unrealized investment (gains) losses on policyholders' account balances	—	—	32,199	(11,270)	20,929
Balance, December 31, 2010	\$ 400,404	\$ (194,158)	\$ 92,690	\$(104,367)	\$ 194,569
Net investment gains (losses) on investments arising during the period	128,890	—	—	(45,090)	83,800
Reclassification adjustment for (gains) losses included in net income	(85,445)	—	—	29,905	(55,540)
Reclassification adjustment for OTTI losses excluded from net income(2)	(212)	—	—	73	(139)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	14,638	—	(5,124)	9,514
Impact of net unrealized investment (gains) losses on policyholders' account balances	—	—	(17,345)	6,070	(11,275)
Balance, December 31, 2011	<u>\$ 443,637</u>	<u>\$ (179,520)</u>	<u>\$ 75,345</u>	<u>\$(118,533)</u>	<u>\$ 220,929</u>

(1) Includes cash flow hedges. See Note 5 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.

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Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

The table below presents net unrealized gains (losses) on investments by asset at December 31:

	December 31, 2011	December 31, 2010 (in thousands)	December 31, 2009
Fixed maturity securities on which an OTTI loss has been recognized	\$ (18,648)	\$ (24,704)	\$ (25,885)
Fixed maturity securities, available for sale - all other	411,366	365,178	210,581
Equity securities, available for sale	(1,359)	1,443	310
Derivatives designated as cash flow hedges (1)	2,523	808	(2,974)
Other investments	31,107	32,975	29,241
Net unrealized gains (losses) on investments	<u>\$ 424,989</u>	<u>\$ 375,700</u>	<u>\$ 211,273</u>

(1) See Note 5 for more information on cash flow hedges.

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:

	December 31, 2011					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value (in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities, available for sale						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 4,696	\$ 4	\$ —	\$ —	\$ 4,696	\$ 4
Obligations of U.S. states and their political subdivisions	—	—	—	—	—	—
Foreign government bonds	96	4	—	—	96	4
Corporate securities	196,766	6,060	13,355	2,393	210,121	8,453
Asset-backed securities	57,956	389	69,641	22,106	127,597	22,495
Commercial mortgage-backed securities	563	—	1,051	2	1,614	2
Residential mortgage-backed securities	4,706	213	4,022	124	8,728	337
Total	<u>\$264,783</u>	<u>\$ 6,670</u>	<u>\$ 88,069</u>	<u>\$ 24,625</u>	<u>\$352,852</u>	<u>\$ 31,295</u>

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

	December 31, 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 thousands)					
Fixed maturities, available for sale						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 9,075	43	—	—	\$ 9,075	\$ 43
Obligations of U.S. states and their political subdivisions	20,662	1,063	—	—	20,662	1,063
Foreign government bonds	152	—	—	—	152	—
Corporate securities	330,322	9,606	51,283	3,860	381,605	13,466
Asset-backed securities	23,625	189	95,622	29,888	119,247	30,077
Commercial mortgage-backed securities	14,375	247	—	—	14,375	247
Residential mortgage-backed securities	3,406	57	5,934	137	9,340	194
Total	\$401,617	\$ 11,205	\$152,839	\$ 33,885	\$554,456	\$ 45,090

The gross unrealized losses at December 31, 2011 and 2010 are composed of \$10 million and \$23 million, respectively, related to high or highest quality securities based on NAIC or equivalent rating and \$21 million and \$22 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At December 31, 2011, \$22 million of the gross unrealized losses represented declines in value of greater than 20%, \$3 million of which had been in that position for less than six months, as compared to \$27 million at December 31, 2010 that represented declines in value of greater than 20%, none of which had been in that position for less than six months. At December 31, 2011 and December 31, 2010, the \$25 million and \$34 million respectively, of gross unrealized losses of twelve months or more were concentrated in asset backed 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 December 31, 2010. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to 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.

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:

	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 thousands)					
Equity securities, available for sale	\$ 3,016	\$ 1,966	\$ —	\$ —	\$ 3,016	\$ 1,966

	December 31, 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 thousands)					
Equity securities, available for sale	\$ 6,606	\$ 1,750	\$ 1,536	\$ 159	\$ 8,142	\$ 1,909

At December 31, 2011, \$2 million of the gross unrealized losses represented declines of greater than 20%, \$1.4 million of which have been in that position for less than six months. At December 31, 2010, \$2 million of the gross unrealized losses represented declines of greater than 20%, all 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

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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, 2011 and 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 December 31, 2010.

Securities Pledged 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 and futures contracts. 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 thousands)	
Fixed maturity securities, available for sale – all other	\$189,143	\$76,981
Trading account assets	232	—
Total securities pledged	<u>\$189,375</u>	<u>\$76,981</u>

As of December 31, 2011, the carrying amount of the associated liabilities supported by the pledged collateral was \$194 million. Of this amount, \$154 million was “Cash collateral for loaned securities” and \$40 million was “Securities sold under agreements to repurchase.” As of December 31, 2010, the carrying amount of the associated liabilities supported by the pledged collateral was \$80 million. Of this amount, \$3 million was “Securities sold under agreements to repurchase” and \$77 million was “Cash collateral for loaned securities.”

Fixed maturities of \$4 million at December 31, 2011 and December 31, 2010 were on deposit with governmental authorities or trustees as required by certain insurance laws.

4. 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 thousands)	
Balance, beginning of year	\$2,693,689	\$1,913,804	\$2,015,110
Capitalization of commissions, sales and issue expenses	1,096,301	906,235	429,258
Amortization- Impact of assumption and experience unlocking and true-ups	(25,242)	75,579	(71,294)
Amortization- All other	(947,961)	(142,007)	(160,330)
Change in unrealized investment gains/(losses)	9,973	(59,922)	(298,940)
Ceded DAC upon Coinsurance Treaty with PAR U (See Note 13)	(281,160)	—	—
Balance, end of year	<u>\$2,545,600</u>	<u>\$2,693,689</u>	<u>\$1,913,804</u>

Deferred acquisition costs include reductions in capitalization and amortization related to reinsurance expense allowances resulting from the coinsurance treaties with Prudential Arizona Reinsurance Captive Company, or “PARCC,” Prudential Arizona Reinsurance Term Company, or “PAR TERM,” Prudential Arizona Reinsurance III Company, or “PAR III” and Prudential Arizona Reinsurance Universal Company or “PAR U,” as discussed in Note 13.

Ceded capitalization amounted to \$208 million, \$220 million and \$220 million in 2011, 2010 and 2009, respectively. Ceded amortization amounted to \$70 million, \$67 million and \$53 million in 2011, 2010 and 2009, respectively. The ceded portion of the impact on deferred acquisition costs related to changes in unrealized gains/(losses) arising from the 2011 coinsurance agreement with PAR U increased the deferred acquisition cost asset \$147 million. Deferred acquisition costs also include a \$281 million reduction resulting from the coinsurance agreement with PAR U effective July 1, 2011 (see Note 13).

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

5. POLICYHOLDERS' LIABILITIES
Future Policy Benefits

Future policy benefits at December 31, are as follows:

	2011	2010
	(in thousands)	
Life insurance – domestic	\$3,184,177	\$2,690,544
Life insurance – Taiwan	977,889	939,159
Individual and group annuities	68,612	57,313
Policy claims and other contract liabilities	1,063,630	(359,467)
Total future policy benefits	\$5,294,308	\$ 3,327,549

Life insurance liabilities include reserves for death benefits and other policy benefits. Individual and Group annuity liabilities include reserves for annuities that are in payout status.

Future policy benefits for domestic and Taiwan individual non-participating traditional life 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 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 range from 2.50% to 8.25% for setting domestic insurance reserves and 6.18% to 7.43% for setting Taiwan reserves.

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 present values range from 1.34% to 14.75%, with approximately 11.45% of the reserves based on an interest rate in excess of 8.00%. The interest rate used in the determination of group annuities reserves is 14.75%.

Future policy benefits for other contract liabilities are generally equal to the present value of expected future payments based on the Company's experience. Other contract liabilities also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts which are discussed in Note 7. The interest rates used in the determination of the present values range from 1.39% to 5.88%.

Policyholders' Account Balances

Policyholders' account balances at December 31, are as follows:

	2011	2010
	(in thousands)	
Interest-sensitive life contracts	\$ 4,645,659	\$ 4,322,863
Individual annuities	1,826,854	1,869,965
Guaranteed interest accounts	776,731	841,268
Other	562,430	477,891
Total policyholders' account balances	\$ 7,811,674	\$ 7,511,987

Policyholders' account balances represent an accumulation of account deposits plus credited interest less withdrawals, expenses and mortality charges, if applicable. Interest crediting rates range from 3.00% to 5.00% for interest-sensitive contracts. Interest crediting rates for individual annuities may range from 1.00 % to 9.00 % with less than 0.01 % of policyholders' account balances with interest crediting rates in excess of 8.00%. Interest crediting rates for guaranteed interest accounts range from 1.00 % to 6.00 %. Interest crediting rates range from 1.00 % to 8.00 % for other.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

6. REINSURANCE

The Company participates in reinsurance with its affiliates Prudential Insurance, Prudential of Taiwan, PARCC, UPARC, PAR U, Pruco Re, PAR III, and PAR TERM, in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term and coinsurance. 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. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely.

The Company has entered into various reinsurance agreements with an affiliate, Pruco Re, to reinsure its living benefit features sold on certain of its annuities as part of its risk management and capital management strategies. For additional details on these agreements, see Note 13.

Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts are accounted for using assumptions consistent with those used to account for the underlying contracts. Amounts recoverable from reinsurers, for long duration reinsurance arrangements, are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies. The affiliated reinsurance agreements are described further in Note 13.

Reinsurance amounts included in the Company's Consolidated Statements of Operations and Comprehensive Income for the years December 31, as follows:

	2011	2010 (in thousands)	2009
Premiums	\$ 1,127,239	\$1,061,881	\$ 959,698
Reinsurance ceded	(1,054,452)	(995,489)	(888,105)
Premiums	\$ 72,787	\$ 66,392	\$ 71,593
Direct policy charges and fees	\$ 1,445,303	\$1,032,261	\$ 935,885
Reinsurance ceded	(335,808)	(441,214)	(283,851)
Policy charges and fees	\$ 1,109,495	\$ 591,047	\$ 652,034
Policyholders' benefits ceded	\$ 742,529	\$ 678,782	\$ 515,539
Realized capital gains/(losses) net, associated with derivatives	\$ 1,185,096	\$ (497,195)	\$(1,183,687)

Reinsurance premiums ceded for interest-sensitive life products are accounted for as a reduction of policy charges and fee income. Reinsurance premiums ceded for term insurance products are accounted for as a reduction of premiums.

Realized investment gains and losses include the impact of reinsurance agreements that are accounted for as embedded derivatives. Changes in the fair value of the embedded derivatives are recognized through "Realized investment gains/(losses)." The Company has entered into reinsurance agreements to transfer the risk related to certain living benefit options on variable annuities to Pruco Re. The Company also entered into an agreement with UPARC (See Note 13) to reinsure a portion of the no-lapse guarantee provision on certain universal life products. These reinsurance agreements are derivatives and have been accounted for in the same manner as an embedded derivative. See Note 11 for additional information related to the accounting for embedded derivatives.

Reinsurance recoverables included in the Company's Consolidated Statements of Financial Position at December 31, 2011 and 2010 were as follows:

	December 31, 2011	December 31, 2010 (in thousands)
Domestic life insurance-affiliated	\$3,876,626	\$2,153,734
Domestic individual annuities-affiliated	869,159	(372,823)
Domestic life insurance-unaffiliated	(658)	239
Taiwan life insurance-affiliated	983,989	946,011
	<u>\$5,729,116</u>	<u>\$2,727,161</u>

Substantially all reinsurance contracts are with affiliates as of December 31, 2011 and December 31, 2010. These contracts are described further in Note 13.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

The gross and net amounts of life insurance face amount in force as of December 31, 2011 and 2010 were as follows:

	2011	2010 (in thousands)	2009
Gross life insurance face amount in force	\$ 569,684,855	\$ 546,708,450	\$ 517,012,733
Reinsurance ceded	(517,857,797)	(492,314,245)	(465,245,943)
Net life insurance face amount in force	<u>\$ 51,827,058</u>	<u>\$ 54,394,205</u>	<u>\$ 51,766,790</u>

7. 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 allocated 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 similar to variable annuities.

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.

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:

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

	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 thousands)			
Variable Annuity Contracts				
Return of Net Deposits				
Account value	\$ 37,091,904	\$ N/A	\$ 23,853,223	\$ N/A
Net amount at risk	947,037	N/A	\$ 112,961	N/A
Average attained age of contractholders	60	N/A	60 years	N/A
Minimum return or contract value				
Account value	\$ 14,074,097	\$ 43,987,117	\$ 12,334,087	\$ 29,079,105
Net amount at risk	\$ 2,571,505	\$ 3,048,978	\$ 1,725,293	\$ 847,993
Average attained age of contractholders	66	60	66 years	60 years
Average period remaining until earliest expected annuitization	N/A	0.55 years	N/A	1.24 years

(1) Includes income and withdrawal benefits as described herein

	Unadjusted Value	Adjusted Value	Unadjusted Value	Adjusted Value
Market value adjusted annuities				
Account value	\$ 673,038	\$ 676,087	\$ 738,349	\$ 744,269

	December 31, 2011	December 31, 2010
	In the Event of Death (in thousands)	
Variable Life, Variable Universal Life and Universal Life Contracts		
No Lapse Guarantees		
Separate account value	\$ 2,418,679	\$ 2,391,911
General account value	\$ 2,089,347	\$ 1,789,570
Net amount at risk	\$54,917,077	\$51,499,882
Average attained age of contractholders	52 years	51 years

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31, 2011	December 31, 2010
	(in thousands)	
Equity funds	\$ 23,180,461	\$ 20,486,317
Bond funds	23,125,115	11,185,349
Money market funds	2,493,553	2,035,929
Total	\$ 48,799,129	\$ 33,707,595

In addition to the above mentioned amounts invested in separate account investment options, \$2.367 billion and \$2.480 billion of account balances of variable annuity contracts with guarantees, inclusive of contracts with MVA feature, were invested in general account investment options in 2011 and 2010, respectively.

Liabilities for Guaranteed 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 income and

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

withdrawal benefits (“GMIWB”), guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum accumulation benefits (“GMAB”) 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 10 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.”

	GMDB		GMIB	GMWB- GMIWB- GMAB	Total
	Variable Annuity	Variable Life, Variable Universal Life & Universal Life	Variable Annuity (in thousands)		
Balance as of December 31, 2008	\$162,569	\$ 86,739	\$ 41,017	\$ 794,640	\$1,084,965
Incurred guarantee benefits (1)	(13,709)	63,694	(14,478)	(812,179)	(776,672)
Paid guarantee benefits	(68,937)	(7,262)	—	—	(76,199)
Balance as of December 31, 2009	\$ 79,923	\$ 143,171	\$ 26,539	\$ (17,539)	\$ 232,094
Incurred guarantee benefits (1)	5,522	18,496	361	(435,284)	(410,905)
Paid guarantee benefits	(36,616)	(560)	(182)	—	(37,358)
Balance as of December 31, 2010	\$ 48,829	\$ 161,107	\$ 26,718	\$ (452,823)	\$ (216,169)
Incurred guarantee benefits (1)	87,111	66,082	7,120	1,365,810	1,526,123
Paid guarantee benefits	(38,305)	(2,280)	(828)	—	(41,413)
Balance as of December 31, 2011	<u>\$ 97,635</u>	<u>\$ 224,909</u>	<u>\$ 33,010</u>	<u>\$ 912,987</u>	<u>\$1,268,541</u>

- (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 embedded derivatives.

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 asset transfer feature 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.

The GMIWB features, taken collectively, provides a contractholder two optional methods to receive guaranteed minimum payments over time, a “withdrawal” option or an “income” option. The withdrawal option (which is available under only one of the Company’s GMIWBs) guarantees that a contract holder can withdraw an amount each year until the cumulative withdrawals reach a total guaranteed balance. The income option (which varies among the Company’s GMIWBs) in general guarantees the contract holder the

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

ability to withdraw an amount each year for life (or for joint lives, in the case of any spousal version of the benefit) where such amount is equal to a percentage of a protected value under the benefit. The contractholder also has the potential to increase this annual amount, based on certain subsequent increases in account value that may occur. Certain GMIWB features include an asset transfer feature 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 limits its exposure to these risks through a combination of product design elements, such as an asset transfer feature, and affiliated reinsurance agreements. The 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, 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 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 asset transfer feature including certain GMIWB riders and certain GMAB riders that feature the GRO policyholder benefits; and those that do not include the asset transfer feature, including certain legacy GMIWB, GMWB, GMAB and GMIB riders. Living benefit riders that include the asset transfer feature also include GMDB riders, and as such the GMDB risk in these riders also benefits from the asset transfer feature.

Sales Inducements

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize deferred policy acquisition costs. These deferred sales inducements are included in "Deferred Sales Inducements" in the Company's Statements of Financial Position. 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 and (2) additional credits after a certain number of years a contract is held. Changes in deferred sales inducements, reported as "Interest credited to policyholders' account balances," are as follows:

	2011	2010 (in thousands)	2009
Balance, beginning of year	\$ 537,943	\$296,341	\$269,310
Capitalization	289,642	246,006	94,526
Amortization- Impact of assumption and experience unlocking and true-ups	(24,919)	15,638	11,070
Amortization- All other	(260,964)	(26,373)	(58,634)
Change in unrealized investment gains and (losses)	1,040	6,330	(19,930)
Balance, end of year	<u>\$ 542,742</u>	<u>\$537,943</u>	<u>\$296,341</u>

8. STATUTORY NET INCOME AND SURPLUS AND DIVIDEND RESTRICTIONS

The Company is required to prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the Arizona Department of Insurance. Statutory accounting practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions and valuing investments, deferred taxes, and certain assets on a different basis.

Statutory net income (loss) for the Company amounted to (\$589) million, \$277 million, and \$167 million for the years ended December 31, 2011, 2010, and 2009, respectively. Statutory surplus of the Company amounted to \$1,496 million and \$1,218 million at December 31, 2011 and 2010, respectively.

The Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Arizona Department of Insurance. Prescribed statutory accounting practices include publications of the NAIC, state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

The Company is subject to Arizona law, which limits the amount of dividends that insurance companies can pay to stockholders without approval of the Arizona Department of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the lesser of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, the Company is restricted from paying dividends in 2012 without prior approval. In 2009 and 2011, there were no dividends nor any returns of capital paid by the Company to the parent company. The Company paid a dividend of \$100 million in 2010, of which \$90 million was considered an ordinary dividend and \$10 million was considered an extraordinary dividend.

9. INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, were as follows:

	2011	2010	2009
		(in thousands)	
Current tax expense (benefit):			
U.S.	\$ 42,474	\$157,318	\$ 93,658
Total	<u>42,474</u>	<u>157,318</u>	<u>93,658</u>
Deferred tax expense (benefit):			
U.S.	(263,930)	(29,219)	(248,231)
Total	<u>(263,930)</u>	<u>(29,219)</u>	<u>(248,231)</u>
Total income tax expense (benefit) on income from operations	(221,456)	128,099	(154,573)
Other comprehensive income	16,417	50,137	135,293
Cumulative effect of changes in accounting policy	—	—	10,637
Total income tax expense (benefit) on continuing operations	<u><u>\$ (205,039)</u></u>	<u><u>\$178,236</u></u>	<u><u>\$ (8,643)</u></u>

The Company's income (loss) from continuing operations before income taxes includes income (loss) from domestic operations of (\$354.2) million, \$517.0 million and (\$254.9) million, and no income from foreign operations for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company's actual income tax expense 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 cumulative effect of accounting change for the following reasons:

	2011	2010	2009
		(in thousands)	
Expected federal income tax expense	\$(123,964)	\$180,944	\$ (89,225)
Non-taxable investment income	(81,031)	(46,161)	(35,900)
Tax credits	(15,977)	(5,553)	(2,270)
Expiration of statute of limitations and related interest	—	—	(33,812)
Other	(484)	(1,131)	6,634
Total income tax expense (benefit) on continuing operations	<u><u>\$(221,456)</u></u>	<u><u>\$128,099</u></u>	<u><u>\$(154,573)</u></u>

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Deferred tax assets and liabilities at December 31, resulted from the items listed in the following table:

	2011	2010
	(in thousands)	
Deferred tax assets		
Insurance reserves	\$995,018	\$ 696,132
Investments	—	45,654
Other	—	1,821
Deferred tax assets	<u>\$995,018</u>	<u>\$ 743,607</u>
Deferred tax liabilities		
Deferred acquisition costs	\$594,677	\$ 679,685
Investments	55,073	0
Deferred Annuity Bonus	189,960	188,280
Net Unrealized gains on securities	147,787	131,136
Other	723	—
Deferred tax liabilities	<u>988,220</u>	<u>999,101</u>
Net deferred tax asset (liability)	<u>\$ 6,798</u>	<u>\$ (255,494)</u>

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. The company had no valuation allowance as of December 31, 2011, 2010 and 2009.

Management believes that based on its historical pattern of taxable income, the Company will produce sufficient income in the future to realize its deferred tax assets. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of deferred tax asset that is realizable.

The Company's unrecognized tax benefits as of December 31, 2009, 2010 and 2011 are as follows:

	Unrecognized tax benefits prior to 2002	Unrecognized tax benefits 2002 and forward (in thousands)	Total unrecognized tax benefits all years
Amounts as of December 31, 2008	\$ 45,118	\$ 6,079	\$ 51,197
Increases in unrecognized tax benefits taken in prior period	—	—	—
(Decreases) in unrecognized tax benefits taken in prior period	—	(826)	(826)
Settlements with parent	(17,197)	—	(17,197)
Settlements with taxing authorities	—	—	—
(Decreases) in unrecognized tax benefits as a result of lapse of the applicable statute of limitations	(26,431)	—	(26,431)
Amounts as of December 31, 2009	<u>\$ 1,490</u>	<u>\$ 5,253</u>	<u>\$ 6,743</u>
Increases in unrecognized tax benefits taken in prior period	—	—	—
(Decreases) in unrecognized tax benefits taken in prior period	—	(5,123)	(5,123)
Amounts as of December 31, 2010	<u>\$ 1,490</u>	<u>\$ 130</u>	<u>\$ 1,620</u>
Increases in unrecognized tax benefits taken in prior period	—	—	—
(Decreases) in unrecognized tax benefits taken in prior period	(1,490)	(17)	(1,507)
Amounts as of December 31, 2011	<u>\$ 0</u>	<u>\$ 113</u>	<u>\$ 113</u>
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate as of December 31, 2009	<u>\$ 1,490</u>	<u>\$ —</u>	<u>\$ 1,490</u>
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate as of December 31, 2010	<u>\$ 1,490</u>	<u>\$ —</u>	<u>\$ 1,490</u>
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate as of December 31, 2011	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(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 (in thousands)	2009
Interest and penalties recognized in the consolidated statements of operations	\$—	\$(1,100)	\$(4,900)
Interest and penalties recognized in liabilities in the consolidated statements of financial position	\$—	\$ —	\$ 1,100

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. 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.

During the fourth quarter of 2011, the Company's parent, Prudential Financial, reached an agreement with the IRS on the resolution of the proposed foreign tax credits disallowance. 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.

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 recently issued an Industry Director Directive ("IDD") 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's parent, Prudential Financial, 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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(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.

10. 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 certain short term investments, and equity securities. 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, certain short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through comparison to trade data and internal estimates of current fair value, generally developed using market observable inputs and economic indicators.

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

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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 (in thousands)	Netting (2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ 153,703	\$ 4,696	\$ —	\$ 158,399
Obligations of U.S. states and their political subdivisions	—	49,638	—	—	49,638
Foreign government bonds	—	54,521	—	—	54,521
Corporate securities	—	4,018,234	23,720	—	4,041,954
Asset-backed securities	—	310,816	62,429	—	373,245
Commercial mortgage-backed securities	—	542,323	—	—	542,323
Residential mortgage-backed securities	—	324,044	—	—	324,044
Sub-total	—	5,453,279	90,845	—	5,544,124
Trading account assets:					
Asset-backed securities	—	17,419	—	—	17,419
Commercial mortgage-backed securities	—	5,062	—	—	5,062
Equity securities	—	—	3,362	—	3,362
Sub-total	—	22,481	3,362	—	25,843
Equity securities, available for sale	5,617	—	2,652	—	8,269
Short-term investments	101,608	181,673	—	—	283,281
Cash equivalents	42,158	191,920	—	—	234,078
Other long-term investments	—	180,603	686	(57,612)	123,677
Other assets	—	70,519	991,129	—	1,061,648
Sub-total excluding separate account assets	149,383	6,100,475	1,088,674	(57,612)	7,280,920
Separate account assets (1)	1,803,852	56,130,595	222,324	—	58,156,771
Total assets	\$1,953,235	\$62,231,070	\$1,310,998	\$(57,612)	\$65,437,691
Future policy benefits	\$ —	\$ —	\$ 912,988	\$ —	\$ 912,988
Other Liabilities	—	57,612	—	(57,612)	—
Total liabilities	\$ —	\$ 57,612	\$ 912,988	\$(57,612)	\$ 912,988

	As of December 31, 2010				
	Level 1	Level 2	Level 3 (in thousands)	Netting	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ 227,962	\$ —	\$ —	\$ 227,962
Obligations of U.S. states and their political subdivisions	—	24,129	—	—	24,129
Foreign government bonds	—	54,709	—	—	54,709
Corporate securities	—	4,321,147	49,050	—	4,370,197
Asset-backed securities	—	349,808	59,770	—	409,578
Commercial mortgage-backed securities	—	580,520	—	—	580,520
Residential mortgage-backed securities	—	375,208	—	—	375,208
Sub-total	—	5,933,483	108,820	—	6,042,303
Trading account assets:					
Asset-backed securities	—	17,525	—	—	17,525
Commercial mortgage-backed securities	—	5,180	—	—	5,180
Sub-total	—	22,705	—	—	22,705
Equity securities, available for sale	8,920	8,695	1,792	—	19,407
Short-term investments	50,989	195,915	—	—	246,904
Cash equivalents	42,040	237,871	—	—	279,911
Other long-term investments	—	26,752	—	(11,557)	15,195
Other assets	—	48,071	(222,491)	—	(174,420)
Sub-total excluding separate account assets	101,949	6,473,492	(111,879)	(11,557)	6,452,005
Separate account assets (1)	1,654,810	41,415,830	198,451	—	43,269,091
Total assets	\$1,756,759	\$47,877,765	\$ 86,572	\$(11,557)	\$49,721,096
Future policy benefits	\$ —	\$ —	\$(452,822)	\$ —	\$ (452,822)
Other Liabilities	—	11,557	—	(11,557)	—
Total liabilities	\$ —	\$ 11,557	\$(452,822)	\$(11,557)	\$ (452,822)

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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

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.

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 December 31, 2010, over-rides on a net basis were not material. Internally-developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service over-rides, internally-developed valuations and non-binding broker quotes are generally included in Level 3 in the fair value hierarchy.

The fair value of private fixed maturities, which are primarily comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are not significant to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

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 consist primarily of asset-backed securities, public corporate bonds, perpetual preferred stock and commercial mortgage-backed securities whose fair values are determined consistent with similar instruments described above under "Fixed Maturity Securities" and below under "Equity Securities." 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 value of perpetual preferred stock are classified as Level 3.

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 value of perpetual preferred stock are classified as Level 3.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Derivative Instruments – Derivatives are recorded at fair value either as assets, within “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, 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 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, and single name credit default swaps 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.

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. 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 may include first-to-default credit basket swaps 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. Structured options and derivatives are valued using simulation models such as the Monte Carlo and other techniques. Level 3 methodologies are validated through periodic comparison of the Company’s fair values to broker-dealer values. As of December 31, 2011, and December 31, 2010, there were derivatives with the fair value of \$102 thousand and \$0 classified within Level 3, and all other derivatives were classified within Level 2. See Note 11 for more details on the fair value of derivative instruments by primary underlying.

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 – Other assets carried at fair value include reinsurance recoverables related to the reinsurance of our living benefit guarantees on certain of our variable annuities and an affiliated security issued by certain investment subsidiaries of Prudential Insurance. These guarantees are described further below in “Future Policy Benefits.” Also included in other assets are certain universal life products that contain a no-lapse guarantee provision. The reinsurance agreements covering these guarantees are derivatives and are accounted for in the same manner as an embedded derivative.

Future Policy Benefits – The liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits (“GMAB”), guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum income and withdrawal benefits (“GMIWB”), accounted for as embedded derivatives. The fair values of the GMAB, GMWB, and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or asset balance, given changing capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are 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 and no-lapse feature on certain universal life products. Since insurance liabilities are senior to debt, the Company believes that reflecting the financial strength ratings of the Company in the valuation of the liability or contra-liability appropriately 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. 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 125 to 250 basis points for the portion of the interest rate curve most relevant to these liabilities. This additional spread is applied at an individual contract level and only to those individual living benefit contracts in a liability position and not to those in a contra-liability position.

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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 fair value of the embedded derivatives associated with the optional living benefit features before the adjustment for NPR, was a net liability of \$4,015 million. This net liability was comprised of \$4,203 million of individual living benefit contracts in a liability position, net of \$188 million of individual living benefit contracts in a contra-liability position. At December 31, 2011, the adjustment for the NPR resulted in a \$3,102 million cumulative decrease to the embedded derivative liability, reflecting the additional credit spread over LIBOR 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 widening of the spreads used in valuing NPR, also drove offsetting increases in the NPR adjustment. As described in Note 6 the Company uses affiliated reinsurance as part of its risk management strategy for certain of the optional living benefit features. As a result, the increase in these embedded derivative liabilities are largely offset by corresponding increases in the reinsurance recoverable associated with the affiliated reinsurance.

Transfers between Levels 1 and 2 – During the twelve months ended December 31, 2011, there were no material transfers between Level 1 and Level 2.

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. Treasury Securities	Fixed Maturities Available For Sale - Corporate Securities	Fixed Maturities Available For Sale - Asset- Backed Securities (in thousands)	Fixed Maturities Available For Sale - Commercial Mortgage- Backed Securities	Equity Securities, Available for Sale
Fair value, beginning of period	\$ —	\$ 49,050	\$ 59,770	\$ —	\$ 1,792
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	—	(3,311)	803	—	(3,315)
Asset management fees and other income	—	—	—	—	—
Included in other comprehensive income (loss)	(4)	(1,126)	(694)	—	2,840
Net investment income	—	219	768	—	—
Purchases	4,700	7,534	23,001	5,019	1,696
Sales	—	(678)	(8,160)	—	—
Issuances	—	883	—	—	—
Settlements	—	(20,679)	(9,094)	—	(99)
Foreign currency translation	—	—	—	—	—
Transfers into Level 3 (2)	—	10,444	—	—	8,695
Transfers out of Level 3 (2)	—	(18,616)	(3,965)	(5,019)	—
Other (4)	—	—	—	—	(8,957)
Fair value, end of period	\$ 4,696	\$ 23,720	\$ 62,429	\$ —	\$ 2,652
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	\$ —	\$ (4,319)	\$ (10)	\$ —	\$ (2,918)
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholder account	\$ —	\$ —	\$ —	\$ —	\$ —
balances	\$ —	\$ —	\$ —	\$ —	\$ —
Included in other comprehensive income (loss)	\$ (4)	\$ (718)	\$ (514)	\$ —	\$ 2,597

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

	Year Ended December 31, 2011				
	Other Trading Account Assets - Equity Securities	Other Long- Term Investments	Other Assets (in thousands)	Separate Account Assets (1)	Future Policy Benefits
Fair value, beginning of period	\$ —	\$ —	\$ (222,491)	\$ 198,451	\$ 452,822
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	—	102	934,112	388	(1,091,846)
Asset management fees and other income	(595)	(46)	—	—	—
Interest credited to policyholder account balances	—	—	—	1,815	—
Included in other comprehensive income (loss)	—	—	(3,980)	—	—
Net investment income	—	—	—	—	—
Purchases	—	630	308,142	86,744	(273,964)
Sales	—	—	—	(65,074)	—
Issuances	—	—	—	—	—
Settlements	(5,000)	—	(3)	—	—
Foreign currency translation	—	—	—	—	—
Transfers into Level 3 (2)	—	—	—	—	—
Transfers out of Level 3 (2)	—	—	(24,651)	—	—
Other (4)	8,957	—	—	—	—
Fair value, end of period	\$ 3,362	\$ 686	\$ 991,129	\$ 222,324	\$ (912,988)
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	\$ —	\$ 75	\$ 973,717	\$ —	\$ (1,085,926)
Asset management fees and other income	\$ (876)	\$ (46)	\$ —	\$ —	\$ —
Interest credited to policyholder account balances	\$ —	\$ —	\$ —	\$ 1,815	\$ —
Included in other comprehensive income (loss)	\$ —	\$ —	\$ (3,980)	\$ —	\$ —

- (1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Consolidated Statements of Financial Position.
- (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) Other primarily represents reclasses of certain assets between reporting categories.

Transfers – The transfers out of Level 3 for \$24.6 million for the year ended December 31, 2011 were primarily the result of the use of third party pricing for an affiliated security issued by an investment subsidiary of Prudential Insurance. Prior to the second quarter of 2011 these assets were valued internally using a pricing model. 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. 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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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, 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 (in thousands)	Fixed Maturities Available For Sale - Commercial Mortgage- Backed Securities	Equity Securities, Available for Sale
Fair value, beginning of period	\$ 1,082	\$ 32,462	\$ 135,466	\$ —	\$ 3,833
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	—	(438)	(1,438)	—	(90)
Asset management fees and other income	—	—	—	—	—
Included in other comprehensive income (loss)	(11)	1,958	(582)	82	(2,291)
Net investment income	(1)	328	735	(7)	—
Purchases, sales, issuances, and settlements	—	(14,534)	4,839	5,160	340
Foreign currency translation	—	—	—	—	—
Transfers into Level 3 (2)	—	30,910	4,525	—	—
Transfers out of Level 3 (2)	(1,070)	(1,636)	(83,775)	(5,235)	—
Fair value, end of period	\$ —	\$ 49,050	\$ 59,770	\$ —	\$ 1,792
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	\$ —	\$ (1,027)	\$ (868)	\$ —	\$ 90
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholder account balances	\$ —	\$ —	\$ —	\$ —	\$ —
Included in other comprehensive income (loss)	\$ (11)	\$ 2,786	\$ (634)	\$ 126	\$ (2,291)

	Year Ended December 31, 2010				
	Trading Account Asset - Backed Securities	Other Liabilities	Other Assets (in thousands)	Separate Account Assets (1)	Future Policy Benefits
Fair value, beginning of period	\$ 1,182	\$ (960)	\$ 159,618	\$ 152,675	\$ 17,539
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	—	960	(474,147)	(799)	540,017
Asset management fees and other income	—	—	—	—	—
Interest credited to policyholder account balances	—	—	—	9,119	—
Included in other comprehensive income (loss)	18	—	2,465	—	—
Net investment income	—	—	—	—	—
Purchases, sales, issuances, and settlements	(1,200)	—	89,573	37,456	(104,733)
Foreign currency translation	—	—	—	—	—
Transfers into Level 3 (2)	—	—	—	—	—
Transfers out of Level 3 (2)	—	—	—	—	—
Fair value, end of period	\$ —	\$ —	\$ (222,491)	\$ 198,451	\$ 452,822
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	\$ —	\$ —	\$ (473,023)	\$ —	\$ 499,913
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholder account balances	\$ —	\$ —	\$ —	\$ 9,119	\$ —
Included in other comprehensive income (loss)	\$ —	\$ —	\$ 2,465	\$ —	\$ —

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

Transfers – Transfers out of Level 3 for Other Assets totaled \$79.5 million 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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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, 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 held at 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 (in thousands)	Fixed Maturities, Available For Sale – Residential Mortgage- Backed Securities	Equity Securities, Available for Sale
Fair value, beginning of period	\$ 867	\$ 13,357	\$ 43,642	\$ 6,309	\$ 968
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	—	(2,344)	(10,559)	—	(2)
Asset management fees and other income	—	—	—	—	—
Included in other comprehensive income (loss)	217	3,991	42,357	43	2,864
Net investment income	(2)	916	1,004	—	—
Purchases, sales, issuances, and settlements	—	(4,636)	(20,381)	(1,252)	—
Foreign currency translation	—	—	—	—	—
Transfers into Level 3 (2)	—	28,257	89,358	—	49
Transfers out of Level 3 (2)	—	(7,079)	(9,955)	(5,100)	(46)
Fair value, end of period	<u>\$ 1,082</u>	<u>\$ 32,462</u>	<u>\$ 135,466</u>	<u>\$ —</u>	<u>\$ 3,833</u>
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	\$ —	\$ (2,904)	\$ (10,020)	\$ —	\$ (2)
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholder account balances	\$ —	\$ —	\$ —	\$ —	\$ —
Included in other comprehensive income (loss)	\$ 217	\$ 3,986	\$ 42,587	\$ —	\$ 2,864

Year Ended December 31, 2009					
	Trading Account Asset –Backed Securities	Other Assets	Separate Account Assets (1) (in thousands)	Other Liabilities	Future Policy Benefits
Fair value, beginning of period	\$ 1,089	\$ 1,157,884	\$ 154,316	\$ (17,167)	\$ (794,640)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	—	(1,157,338)	(3,608)	16,207	848,282
Asset management fees and other income	93	—	—	—	—
Interest credited to policyholder account balances	—	—	(10,140)	—	—
Included in other comprehensive income (loss)	—	22,282	—	—	—
Net investment income	—	—	—	—	—
Purchases, sales, issuances, and settlements	—	136,790	17,545	—	—
Foreign currency translation	—	—	—	—	(36,103)
Transfers into Level 3 (2)	—	—	—	—	—
Transfers out of Level 3 (2)	—	—	(5,438)	—	—
Fair value, end of period	<u>\$ 1,182</u>	<u>\$ 159,618</u>	<u>\$ 152,675</u>	<u>\$ (960)</u>	<u>\$ 17,539</u>
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	\$ —	\$ (788,470)	\$ —	\$ 16,215	\$ 830,739
Asset management fees and other income	\$ 93	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholder account balances	\$ —	\$ —	\$ (10,141)	\$ —	\$ —
Included in other comprehensive income (loss)	\$ —	\$ —	\$ —	\$ —	\$ —

- (1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent 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 Statements of Financial Position.
- (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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Transfers – Transfers into Level 3 for Fixed Maturities Available for Sale totaled \$117.6 million for the year ended December 31, 2009. Transfers into Level 3 for these investments were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when information from third party pricing services or models with observable inputs were utilized. Transfers out of Level 3 for Fixed Maturities Available for Sale 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.

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, equity securities, securities purchased under agreements to resell, short-term investments, cash and cash equivalents, accrued investment income, separate account assets, 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 11 for a discussion of derivative instruments.

The following table discloses the Company's financial instruments where the carrying amounts and fair values differ:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair value	Carrying Amount	Fair value
	(in thousands)			
Assets:				
Commercial mortgage and other loans	\$ 1,406,492	\$1,543,968	\$ 1,275,022	\$1,352,761
Policy loans	1,050,878	1,401,354	1,061,607	1,258,411
Liabilities:				
Policyholder account balances - investment contracts	677,316	673,673	588,200	584,112
Short-term and long-term debt to affiliates	1,301,000	1,328,254	895,000	898,115

The fair values presented above for those financial instruments where the carrying amounts and fair values differ have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Commercial mortgage and other loans

The fair value of commercial mortgage and other loans is primarily based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate 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 on 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.

Policy Loans

The fair value of policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayment patterns.

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, 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 claims paying ratings, and hence reflect the Company's own nonperformance risk. 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.

Short-term and long-term debt to affiliates

The fair value of short-term and long-term debt is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. 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.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

11. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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.

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.

Foreign Exchange Contracts

Currency derivatives, including currency swaps and forwards, 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.

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 can sell credit protection on an identified name, or a basket of names in a first to default structure, and in return receive a quarterly premium. 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 may purchase credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio.

Embedded Derivatives

The Company sells variable annuity contracts that include certain optional living benefit features that are treated for accounting purposes as embedded derivatives. The Company has reinsurance agreements to transfer the risk related to certain of these embedded derivatives to an affiliate, Pruco Reinsurance Ltd. ("Pruco Re"). The embedded derivatives related to the living benefit features and the related reinsurance agreements are carried at fair value. Mark-to-market changes in the fair value of the underlying contractual guarantees are determined using valuation models as described in Note 7, and are recorded in "Realized investment gains (losses), net."

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.

The fair value of the living benefit feature embedded derivatives included in "Future policy benefits" was a liability of \$913 million as of December 31, 2011 and a contra-liability of \$453 million as of December 31, 2010. The fair value of the embedded derivatives related to the reinsurance of certain of these benefits to Pruco Re included in "Reinsurance recoverables" was an asset of \$869 million as of December 31, 2011 and a contra-asset of \$373 million as of December 31, 2010.

Some of the Company's universal life products contain a no-lapse guarantee provision that is reinsured with an affiliate, UPARC. The reinsurance agreement contains an embedded derivative related to the interest rate risk of the reinsurance contract. Interest sensitivity can result in mark-to-market changes in the value of the underlying contractual guarantees, as well as actual activity related to premium and benefits. In third quarter 2011, the Company amended this reinsurance agreement resulting in a recapture of a portion of the no-lapse guarantee provision effective July 1, 2011.

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Notes to Consolidated Financial Statements—(Continued)

The table below provides a summary of the gross notional amount and fair value of derivatives contracts, excluding embedded derivatives which are recorded with the associated host, by the primary underlying. Many derivative instruments contain multiple underlyings.

Primary Underlying	December 31, 2011			December 31, 2010		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
		(in thousands)				
Qualifying Hedges						
Currency/Interest Rate	\$ 60,507	\$ 3,500	\$ (865)	\$ 46,749	\$ 2,193	\$ (1,152)
Total Qualifying Hedges	<u>\$ 60,507</u>	<u>\$ 3,500</u>	<u>\$ (865)</u>	<u>\$ 46,749</u>	<u>\$ 2,193</u>	<u>\$ (1,152)</u>
Non-Qualifying Hedges						
Interest Rate	\$ 766,900	\$ 98,500	\$ (2,110)	\$ 481,500	\$ 19,170	\$ (4,738)
Currency	7,273	37	(108)	2,109	—	(43)
Credit	73,000	203	(667)	16,900	1,206	(1,653)
Currency/Interest Rate	52,236	2,522	(1,502)	51,943	1,434	(2,846)
Equity	8,093,696	75,945	(52,360)	93,955	2,749	(1,125)
Total Non-Qualifying Hedges	<u>8,993,105</u>	<u>177,207</u>	<u>(56,747)</u>	<u>646,407</u>	<u>24,559</u>	<u>(10,405)</u>
Total Derivatives (1)	<u>\$9,053,612</u>	<u>\$180,707</u>	<u>\$ (57,612)</u>	<u>\$693,156</u>	<u>\$26,752</u>	<u>\$ (11,557)</u>

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a liability of \$948 million as of December 31, 2011 and a contra-liability of \$423 million as of December 31, 2010 included in “Future policy benefits” and “Fixed maturities available for sale.”

Cash Flow Hedges

The Company uses currency swaps in its cash flow hedge accounting relationships. This instrument is only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, and equity or embedded derivatives in any of its cash flow hedge accounting relationships.

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	2010	2009
	(in thousands)		
Qualifying Hedges			
Cash flow hedges			
<i>Currency/Interest Rate</i>			
Net investment income	\$ 233	\$ 529	\$ 170
Realized investment gains (losses)	(337)		
Other income	49	89	(22)
Accumulated Other Comprehensive Income (1)	1,715	2,646	(2,302)
Total cash flow hedges	<u>\$ 1,660</u>	<u>\$ 3,264</u>	<u>\$ (2,154)</u>
Non-qualifying hedges			
<i>Realized investment gains (losses)</i>			
Interest Rate	\$ 90,706	\$ 25,842	\$ (29,765)
Currency	175	169	(91)
Currency/Interest Rate	1,102	1,177	(6,537)
Credit	733	(1,631)	9,885
Equity	(3,264)	742	(76,567)
Embedded Derivatives	88,740	52,278	(313,243)
Total non-qualifying hedges	<u>178,192</u>	<u>78,577</u>	<u>(416,318)</u>
Total Derivative Impact	<u>\$179,852</u>	<u>\$81,841</u>	<u>\$ (418,472)</u>

(1) Amounts deferred in “Accumulated other comprehensive income (loss).”

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

For the period ending December 31, 2011, 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.

Presented below is a roll forward of current period cash flow hedges in "Accumulated other comprehensive income (loss)" before taxes:

	(in thousands)
Balance, December 31, 2010	\$ 808
Net deferred gains on cash flow hedges from January 1 to December 31, 2011	1,607
Amount reclassified into current period earnings	108
Balance, December 31, 2011	<u>\$ 2,523</u>

As of December 31, 2011 the Company did 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 existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 15 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.

Credit Derivatives Written

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 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" 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 interests was \$85 million at December 31, 2011 and \$91 million at December 31, 2010. The fair value of the embedded derivatives included in Fixed maturities, available for sale was a liability of \$35 million at December 31, 2011 and \$30 million at December 31, 2010.

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. The Company's maximum amount at risk under these credit derivatives, assuming the value of the underlying referenced securities become worthless, is \$58 million and \$0 million notional of credit default swap ("CDS") selling protection with an associated fair value of less than \$1 million, at December 31, 2011 and December 31, 2010, respectively. These credit derivatives generally have maturities of five to ten years and consist of corporate securities within the finance industry. At December 31, 2011, the underlying credits have an NAIC designation rating of 1.

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 December 31, 2010, the Company had \$15 million and \$17 million of outstanding notional amounts, respectively, reported at fair value as a liability of \$1 million and a liability of less than a million, respectively.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by our counterparty to financial derivative transactions. Generally, 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 after taking into consideration the existence of netting agreements.

The Company has credit risk exposure to an affiliate, Prudential Global Funding, LLC related to its over-the-counter derivative transactions. Prudential Global Funding, LLC manages credit risk with external counterparties by entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties, and by obtaining collateral where appropriate.

Under fair value measurements, the Company incorporates the market's perceptions 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.

12. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments

The Company has made commitments to fund \$22 million of commercial loans as of December 31, 2011. The Company also made commitments to purchase or fund investments, mostly private fixed maturities, of \$82 million as of December 31, 2011.

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Notes to Consolidated Financial Statements—(Continued)

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 costs 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.

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 business. Pending legal and regulatory actions include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which it operates. The Company is subject to class action lawsuits and other litigation involving a variety of issues and allegations involving sales practices, claims payments and procedures, premium charges, policy servicing and breach of fiduciary duty to customers. The Company is also subject to litigation arising out of its general business activities, such as its investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment, and could be exposed to claims or litigation concerning certain business or process patents. In some of the pending legal and regulatory actions, plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. In addition, the Company, along with other participants in the businesses in which it engages, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of the Company's pending legal and regulatory actions, parties 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. The following is a summary of certain pending proceedings.

In December 2010, a purported state-wide class action complaint, *Phillips v. Prudential Financial, Inc.*, was filed in the Circuit Court of the First Judicial Circuit, Williamson County, Illinois. The complaint makes claims of breach of contract, breaches of fiduciary duty, and violation of Illinois law on behalf of a class of Illinois residents whose death benefits were settled by retained assets accounts and seeks damages and disgorgement of profits. In January 2011, the case was removed to the United States District Court for the Southern District of Illinois. In March 2011, the complaint was amended to drop Prudential Financial as a defendant and add the Company as a defendant. The matter is now captioned *Phillips v. Prudential Insurance and Pruco Life Insurance Company*. In April 2011, a motion to dismiss the amended complaint was filed. In November 2011, the complaint was dismissed and the dismissal appealed in December 2011.

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, adverse publicity and potential changes to business practices.

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 March 2012, a *qui tam* action on behalf of the State of Minnesota, *Total Asset Recovery v. MetLife Inc., et al., Prudential Financial Inc., The Prudential Insurance Company of America and Prudential Holdings, Inc.*, filed in the Fourth Judicial District, Hennepin County, in the State of Minnesota was served on the Company. The complaint alleges that the Company failed to escheat life insurance proceeds to the State of Minnesota in violation of the Minnesota False Claims 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 prescribes

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

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.

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.

13. RELATED PARTY TRANSACTIONS

The Company has extensive transactions and relationships with Prudential Insurance and other affiliates. Although we seek to ensure that these transactions and relationships are fair and reasonable, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

Expense Charges and Allocations

Many of the Company's expenses are allocations or charges from Prudential Insurance or other affiliates. These expenses can be grouped into general and administrative expenses and agency distribution expenses.

The Company's general and administrative expenses are charged to the Company using allocation methodologies based on business production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses also include allocations of stock compensation expenses related to a stock option program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock option program was less than \$1 million for the twelve months ended December 31, 2011, 2010 and 2009. The expense charged to the Company for the deferred compensation program was \$7 million, \$4 million and \$3 million for the twelve months ended December 31, 2011, 2010 and 2009, respectively.

The Company is charged for its share of employee benefits expenses. These expenses include costs for funded and non-funded contributory and non-contributory defined benefit pension plans. Some of these benefits are based on final group earnings and length of service while others are based on an account balance, which takes into consideration age, service and earnings during career. The Company's share of net expense for the pension plans was \$18 million, \$13 million and \$8 million in 2011, 2010 and 2009 respectively.

Prudential Insurance sponsors voluntary savings plans for its 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 Company's expense for its share of the voluntary savings plan was \$8.1 million, \$6.2 million and \$4.2 million in 2011, 2010 and 2009 respectively.

The Company is charged distribution expenses from Prudential Insurance's agency network for both its domestic life and annuity products through a transfer pricing agreement, which is intended to reflect a market based pricing arrangement.

Corporate Owned Life Insurance

The Company has sold four Corporate Owned Life Insurance or, "COLI," policies to Prudential Insurance, and one to Prudential Financial. The cash surrender value included in separate accounts for these COLI policies was \$2.134 billion at December 31, 2011 and \$2.061 billion at December 31, 2010, respectively. Fees related to these COLI policies were \$33 million, \$41 million and \$37 million for the years ending December 31, 2011, 2010 and 2009 respectively. The Company retains the majority of the mortality risk associated with these COLI policies.

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Notes to Consolidated Financial Statements—(Continued)

Reinsurance with Affiliates

UPARC

Through June 30, 2011 the Company, excluding its subsidiaries, reinsured its universal protector policies having no-lapse guarantees with an affiliated company, UPARC. UPARC reinsured an amount equal to 90% of the net amount at risk related to the first \$1 million in face amount plus 100% of the net amount at risk related to the face amount in excess of \$1 million as well as 100% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies.

Effective July 1, 2011, the agreement between the Company and UPARC to reinsure its universal protector policies having no-lapse guarantees was amended for policies with effective dates prior to January 1, 2011. Under the amended agreement, UPARC reinsures an amount equal to 27% of the net amount at risk related to the first \$1 million in face amount plus 30% of the net amount at risk related to the face amount in excess of \$1 million as well as 30% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies. Policies with effective dates January 1, 2011 or later are reinsured with UPARC under the terms described in the previous paragraph. The settlement of the recapture premium occurred on October 31, 2011. As a result, the recapture premium was treated as if settled on the effective date and adjusted for the time elapsed between this date and the settlement date. This adjustment was equal to the earned interest and changes in market values from the effective date through settlement date related to fixed maturity securities from an asset portfolio within UPARC. The Company is not relieved of its primary obligation to the policyholder as a result of these reinsurance transactions.

The portion of this reinsurance contract related to mortality is accounted for as reinsurance. Reinsurance recoverables related to this reinsurance agreement were \$21 million and \$50 million as of December 31, 2011 and December 31, 2010, respectively. Fees ceded to UPARC in 2011, 2010 and 2009 were \$21 million, \$102 million and \$51 million, respectively. 2011 fees ceded include the recapture of \$33 million unearned and supplemental premiums on yearly renewable term mortality risk previously ceded to UPARC. Benefits ceded to UPARC in 2011, 2010 and 2009 were \$37 million, \$52 million and \$48 million respectively. The portion of this reinsurance contract related to the no lapse guarantee provision is accounted for as an embedded derivative. Realized gains (losses) on the no lapse guarantee embedded derivative were \$298 million, (\$18) million and (\$370) million for the years ended December 31, 2011, 2010 and 2009, respectively. The adjustment related to the settlement of the recapture premium discussed above resulted in a realized gain of \$37 million in 2011 and was accounted for as a derivative.

PAR U

Effective July 1, 2011, the Company, excluding its subsidiaries, entered into to an automatic coinsurance agreement with PAR U, an affiliated company, to reinsure an amount equal to 70% of the all risks associated with its universal protector policies having no lapse guarantees as well as its universal plus policies, with effective dates prior to January 1, 2011. The Company is not relieved of its primary obligation to the policyholder as a result of this agreement. Under this agreement, an initial reinsurance premium of \$2,447 million less a ceding allowance of \$1,439 million, was paid to PAR U. Consideration for the amount due to PAR U was transferred on October 31, 2011 but was treated as if settled on the effective date of the coinsurance agreement. The time elapsed between the effective date and the settlement date resulted in a derivative equal to the earned interest and changes in market values from the effective date through settlement date related to fixed maturity securities from both an asset portfolio within the Company, as well as an asset portfolio within UPARC. The realized loss associated with the settlement of this embedded derivative on October 31, 2011 was \$61 million.

Amounts included in the Company's Consolidated Statements of Financial Position at December 31, 2011 were as follows:

	<u>December 31, 2011</u> <u>(\$ in thousands)</u>
Reinsurance recoverables	\$ 1,356,705
Policy loans	\$ (36,556)
Deferred policy acquisition costs	\$ (127,726)
Other liabilities (reinsurance payables) ⁽¹⁾	\$ 153,688

(1) Includes \$135 million of a deferred gain arising from the coinsurance agreement with PAR U effective July 1, 2011.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Reinsurance amounts included in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) in 2011 are as follows:

	December 31, 2011 (\$ in thousands)
Gross premium and policy charges and fee income	\$ 102,722
Interest credited to policy holder accounts ceded	
Policyholders' benefits ceded	\$ 49,337
Reinsurance expense allowances, net of capitalization and amortization	\$ 30,780
Realized capital losses, associated with derivatives	\$ (61,398)

PARCC

The Company reinsures 90% of the risk under its term life insurance policies, with effective dates prior to January 1, 2010, exclusive of My Term, ROP Term Life issued through its life insurance subsidiary, and those reinsured by PAR III (see below) through an automatic coinsurance agreement with PARCC. The Company is not relieved of its primary obligation to the policyholder as a result of this agreement. Reinsurance recoverables related to this agreement were \$2,064 million, and \$1,826 million as of December 31, 2011, and December 31, 2010, respectively. Premiums ceded to PARCC in 2011, 2010 and 2009, were \$725 million, \$785 million and \$799 million, respectively. Benefits ceded to PARCC in 2011, 2010 and 2009 were \$370 million, \$328 million and \$295 million, respectively. Reinsurance expense allowances, net of capitalization and amortization were \$143 million, \$167 million and \$171 million for the years ended December 31, 2011, 2010 and 2009, respectively.

PAR TERM

The Company reinsures 95% of the risk under its term life insurance policies with effective dates on or after January 1, 2010, exclusive of My Term, through an automatic coinsurance agreement with PAR TERM. The Company is not relieved of its primary obligation to the policyholder as a result of this agreement. Reinsurance recoverables related to this agreement were \$248 million and \$91 million as of December 31, 2011 and December 31, 2010, respectively. Premiums ceded to PAR TERM were \$239 million and \$102 million, for the years ended December 31, 2011 and December 31, 2010, respectively. Benefits ceded to PAR TERM were \$34 million and \$16 million, for the years ended December 31, 2011 and December 31, 2010, respectively. Reinsurance expense allowances, net of capitalization and amortization were \$44 million and \$24 million for the years ended December 31, 2011 and December 31, 2010, respectively.

PAR III

The Company, excluding its subsidiaries, reinsures 90% of the risk under its ROP term life insurance policies with effective dates in 2009 through an automatic coinsurance agreement with PAR III. The Company is not relieved of its primary obligation to the policyholder as a result of this agreement. Reinsurance recoverables related to this agreement were \$8 million, and \$5 million as of December 31, 2011, and December 31, 2010, respectively. Premiums ceded to PAR III were \$3 million, \$3 million and \$2 million for the years ended December 31, 2011, December 31, 2010 and December 31, 2009, respectively. Benefits ceded to PAR III in were \$1 million for the year ended December 31, 2011, and less than \$1 million for the years ended December 31, 2010 and 2009. Reinsurance expense allowances, net of capitalization and amortization were \$1 million for the years ended December 31, 2011, 2010 and 2009.

Prudential Insurance

The Company has a yearly renewable term reinsurance agreement with Prudential Insurance and reinsures the majority of all mortality risks not otherwise reinsured. Effective July 1, 2011, the Company recaptured a portion of this reinsurance agreement related to its universal plus policies having effective dates prior to January 1, 2011. The Company now reinsures these risks with PAR U discussed above. Reinsurance recoverables related to this agreement were \$173 million, and \$175 million as of December 31, 2011, and December 31, 2010, respectively. Premiums and fees ceded to Prudential Insurance in 2011, 2010 and 2009 were \$223 million, \$355 million and \$240 million, respectively. Benefits ceded to Prudential in 2011, 2010 and 2009 were \$231 million, \$263 million and \$218 million, respectively. The Company is not relieved of its primary obligation to the policyholder as a result of these agreements.

The Company has reinsured a group annuity contract with Prudential Insurance, in consideration for a single premium payment by the Company, providing reinsurance equal to 100% of all payments due under the contract. The Company is not relieved of its primary obligation to the policyholders as a result of this agreement. Reinsurance recoverables related to this agreement were \$7 million for both years ended December 31, 2011 and December 31, 2010, and \$8 million for the year ended December 31, 2009. Benefits ceded were \$2 million for the three years ended December 31, 2011, 2010 and 2009.

In December 2010, the Company amended certain of its affiliated reinsurance treaties to change the settlement mode from monthly to annual. As a result of these treaty amendments, the Company was required to pay our reinsurers, Prudential Insurance and UPARC, the premium difference that resulted. Settlement of this premium difference was made by transfers of securities at fair value of \$120 million to Prudential Insurance and \$35 million to UPARC.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Pruco Reinsurance

The Company uses reinsurance as part of its risk management and capital management strategies for certain of its optional living benefit features.

The following table provides information relating to fees ceded to Pruco Reinsurance (“Pruco Re”) under these agreements which are included in “Realized investment (losses) gains, net” on the Unaudited Interim Consolidated Statement of Operations and Comprehensive Income for the dates indicated.

	December 31, 2011	Year Ended December 31, 2010 (in thousands)	December 31, 2009
Pruco Reinsurance			
Effective January 24, 2011			
Highest Daily Lifetime Income (“HDI”) (1)	\$ 31,639	\$ —	\$ —
Spousal Highest Daily Lifetime Income (“SHDI”) (1)	11,940	—	—
Effective beginning August 24, 2009			
Highest Daily Lifetime 6 Plus (“HD6 Plus”) (1)	152,902	26,306	180
Spousal Highest Daily Lifetime 6 Plus (“SHD6 Plus”) (1)	67,754	11,951	64
Effective June 30, 2009			
Highest Daily Lifetime 7 Plus (“HD7 Plus”) (1)	17,014	14,516	4,488
Spousal Highest Daily Lifetime 7 Plus (“SHD7 Plus”) (1)	8,951	7,533	2,207
Effective January 28, 2008			
Highest Daily Lifetime 7 (“HD7”) (1)	11,007	10,343	9,228
Spousal Highest Daily Lifetime 7 (“SHD7”) (1)	2,660	2,482	2,161
Effective March 15, 2010			
Guaranteed Return Option Plus II (“GRO Plus II”) (1)	3,595	812	—
Effective January 28, 2008			
Highest Daily Guaranteed Return Option (“HD GRO”) (1)	609	610	440
Highest Daily Guaranteed Return Option II (“HD GRO II”) (1)	2,885	820	—
Effective Since 2006			
Highest Daily Lifetime Five (“HDLT5”) (1)	4,690	4,795	4,829
Spousal Lifetime Five (“SLT5”) (1)	2,398	2,298	2,053
Effective Since 2005			
Lifetime Five (“LT5”) (1)	15,461	15,011	13,614
Total Pruco Reinsurance	<u>\$ 333,505</u>	<u>\$ 97,477</u>	<u>\$ 39,264</u>

(1) Effective October 1, 2011, PLNJ entered into a coinsurance agreement with Pruco Re providing for the 100% reinsurance of this rider.

The Company’s reinsurance recoverables related to the above product reinsurance agreements were \$869 million and (\$373) million as of December 31, 2011, and December 31, 2010, respectively. Realized gains (losses) ceded were \$908 million, (\$479) million and \$814 million for the years ended December 31, of 2011, 2010 and 2009, respectively. Changes in realized gains (losses) for the 2011, 2010 and 2009 periods were primarily due to changes in market conditions in the period. The underlying asset as of December 31, 2011 and the contra-asset as of December 31, 2010 are reflected in “Reinsurance recoverables” in the Company’s Consolidated Statements of Financial Position.

Taiwan branch reinsurance agreement

On January 31, 2001, the Company transferred all of its assets and liabilities associated with its Taiwan branch, including its Taiwan insurance book of business, to an affiliate, Prudential Life Insurance Company of Taiwan Inc. (“Prudential of Taiwan”).

The mechanism used to transfer this block of business in Taiwan is referred to as a “full acquisition and assumption” transaction. Under this mechanism, the Company is jointly liable with Prudential of Taiwan for two years from the giving of notice to all obligees for all matured obligations and for two years after the maturity date of not-yet-matured obligations. Prudential of Taiwan is also contractually liable, under indemnification provisions of the transaction, for any liabilities that may be asserted against the Company.

The transfer of the insurance related assets and liabilities was accounted for as a long-duration coinsurance transaction under accounting principles generally accepted in the United States. Under this accounting treatment, the insurance related liabilities remain on the books of the Company and an offsetting reinsurance recoverable is established. These assets and liabilities are denominated in Taiwan dollars.

Affiliated premiums in 2011, 2010 and 2009 from the Taiwan coinsurance agreement were \$74 million, \$87 million and \$77 million, respectively. Affiliated benefits ceded in 2011, 2010 and 2009 from the Taiwan coinsurance agreement were \$22 million and \$23 million and \$21 million, respectively.

Reinsurance recoverables related to the Taiwan coinsurance agreement were \$984 million and \$946 million at December 31, 2011 and December 31, 2010, respectively.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

Deferred Policy Acquisition Costs Ceded to Term Reinsurance Affiliates

In 2009 when implementing a revision to the reinsurance treaties with PARCC, PAR TERM and PAR III, modifications were made affecting premiums. The related impact on the deferral of ceded reinsurance expense allowance did not reflect this change resulting in the understatement of deferred reinsurance expense allowances. During second quarter 2011, the Company recorded the correction, charging \$13 million to net DAC amortization which represented the cumulative impact of this change. These adjustments are not material to any previously reported quarterly or annual financial statements.

Affiliated Asset Administration Fee Income

Effective April 1, 2009, the Company amended an existing agreement to add AST Investment Services, Inc., formerly known as American Skandia Investment Services, Inc, as a party whereas the Company receives fee income calculated on contractholder separate account balances invested in the Advanced Series Trust, formerly known as American Skandia Trust. Income received from AST Investment Services, Inc. related to this agreement was \$152.5 million, \$51.3 million, and \$14.9 million for the years ended December 31, 2011, 2010, and 2009 respectively. These revenues are recorded as “Asset administration fees” in the Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company participates in a revenue sharing agreement with Prudential Investments LLC, whereby the Company receives fee income from policyholders’ account balances invested in The Prudential Series Fund (“PSF”). Income received from Prudential Investments LLC, related to this agreement was \$10.6 million, \$10.3 million, and \$10.0 for the years ended December 31, 2011, 2010, and 2009, respectively. These revenues are recorded as “Asset administration fees” in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Affiliated Asset Transfers

The Company buys and sells assets to and from affiliated companies.

In December 2010, the Company purchased fixed maturity securities from affiliated companies, Prudential Annuities Life Assurance Corporation (“PALAC”) and Pruco Re. The securities were purchased from PALAC, at a fair market value of \$292 million, and were recorded net of OCI at an amortized cost of \$257 million. The securities were purchased from Pruco Re, at a fair market value of \$81 million, and were recorded net of OCI at an amortized cost of \$76 million. The difference between fair market value and book value of these transfers was accounted for as a net decrease of \$40 million to additional paid-in capital in 2010. During first quarter 2011, the Company recorded an out of period adjustment that reclassified the \$40 million difference between book value and fair market value from additional paid-in capital to retained earnings. As part of this adjustment, a \$14 million reduction to the deferred tax liability was recorded with an offset also reflected in retained earnings to record the tax effect of this activity. These adjustments were not material to any previously reported quarterly or annual financial statements.

In December 2010, the Company amended certain of its affiliated reinsurance treaties to change the settlement mode from monthly to annual. As a result of these treaty amendments, we were required to pay our reinsurers, Prudential Insurance and UPARC, the premium difference that resulted. Settlement of the premium difference with Prudential Insurance was made by transfer of securities that had an amortized cost of \$117 million and a fair market value of \$120 million. The difference between amortized cost and fair market value was accounted for as an increase of \$3 million to additional paid-in capital. Settlement of the premium difference with UPARC was made by transfer of securities of \$35 million in 2010, where fair market value approximated amortized cost.

In October 2011, the Company received fixed maturity securities from UPARC, an affiliated company, as consideration for the recapture of previously ceded business. The fair market value of the assets transferred to the Company was \$350 million. The time elapsed between the effective date and the settlement date of the coinsurance agreement with PAR U resulted in a derivative gain of \$37 million reflecting changes in market values of the consideration from the effective date through settlement date.

In October 2011, the Company transferred fixed maturity securities to PAR U, an affiliated company, as consideration for the coinsurance agreement with this affiliate. These securities had an amortized cost of \$943 million and a fair market value of \$1,006 million. The net difference between amortized cost and the fair value was \$63 million and was recorded as a realized investment gain on the Company's financial statements. The time elapsed between the effective date and the settlement date of the coinsurance agreement with PAR U resulted in a derivative loss of \$61 million reflecting changes in market values of the consideration from the effective date through settlement date.

In October 2011, the Company sold fixed maturity securities to PAR U, an affiliated company. These securities had an amortized cost of \$84 million and a fair market value of \$92 million. The net difference between amortized cost and fair market value was \$8 million and was accounted for as a realized investment gain on the Company's financial statements.

In November 2011, the Company sold fixed maturity securities to its parent company, Prudential Insurance. These securities had an amortized cost of \$41 million and a fair market value of \$45 million. The difference between amortized cost and fair market was accounted for as an increase of \$3 million to additional paid-in capital, net of taxes in 2011.

In December 2011, the Company sold commercial loan securities to its parent company, Prudential Insurance. These securities had an amortized cost of \$19 million and a fair market value of \$21 million. The difference between amortized cost and fair market value was accounted for as an increase of \$1 million to additional paid-in capital, net of taxes in 2011.

Pruco Life Insurance Company
Notes to Consolidated Financial Statements—(Continued)

In December 2011, the Company sold fixed maturity securities to PARCC, an affiliated company. These securities had an amortized cost of \$36 million and a fair market value of \$38 million. The net difference between amortized cost and fair value was \$2 million and was accounted for as a realized investment gain on the Company's financial statements.

Debt Agreements

The Company has an agreement with an affiliate, Prudential Funding, LLC, which allows the Company to borrow funds for working capital and liquidity needs. The borrowings under this agreement are limited to \$900 million. The Company had \$114 million in short term debt affiliated with Prudential Financial and \$15 million affiliated with Prudential Funding, LLC, as of December 31, 2011, and no borrowings outstanding as of December 31, 2010.

On December 20, 2010, the Company borrowed \$650 million from Prudential Insurance. This loan has a fixed interest rate of 3.47% and matures on December 21, 2015. The total related interest expense to the Company was \$22.5 million for the year ended December 31, 2011.

On November 15, 2010, the Company borrowed \$245 million from Prudential Financial. This loan has a fixed interest rate of 3.01% and matures on November 13, 2015. The total related interest expense to the Company was \$7.1 million for the year ended December 31, 2011. On December 15, 2011, the Company repaid \$179 million to Prudential Financial as a partial repayment for the \$245 million borrowing. The outstanding principle related to this loan was \$66 million at December 31, 2011.

On June 20, 2011, the Company entered into a series of four \$50 million borrowings with Prudential Financial, totaling \$200 million. The loans have fixed interest rates ranging from 1.66% to 3.17% and maturity dates staggered one year apart, from June 19, 2013 to June 19, 2016. The total related interest expense was \$2.6 million for the year ended December 31, 2011.

On December 15, 2011, the Company entered into a series of four \$53 million borrowings and on December 16, 2011 four \$11 million borrowings with Prudential Financial, totaling \$256 million. The loans have fixed interest rates ranging from 2.65% to 3.61% and maturity dates staggered one year apart, from December 16, 2013 to December 16, 2016. The total related interest expense was \$0.35 million for the year ended December 31, 2011.

Derivative Trades

In the ordinary course of business, the Company enters into over-the-counter ("OTC") derivative contracts with an affiliate, Prudential Global Funding, LLC. For these OTC derivative contracts, Prudential Global Funding, LLC has a substantially equal and offsetting position with external counterparties.

14. 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 thousands)			
2011				
Total revenues	\$478,756	\$ 493,845	\$ 639,641	\$ 519,442
Total benefits and expenses	383,055	465,288	1,371,790	265,750
Income (loss) from operations before income taxes	95,701	28,557	(732,149)	253,692
Net income (loss)	<u>\$ 76,041</u>	<u>\$ 23,805</u>	<u>\$ (434,310)</u>	<u>\$ 201,721</u>
2010				
Total revenues	\$303,046	\$ 417,543	\$ 316,435	\$ 301,970
Total benefits and expenses	249,047	636,017	(3,243)	(59,811)
Income (loss) from operations before income taxes	53,999	(218,474)	319,678	361,781
Net income (loss) (1)	<u>\$ 49,112</u>	<u>\$(139,086)</u>	<u>\$ 224,855</u>	<u>\$ 254,004</u>

- (1) In addition to the impact from the retrospective adoption of which costs relating to acquisition of new or renewal insurance costs qualify for deferral included within the three months ended June 30, 2010 and September 30, 2010, are offsetting impacts of approximately \$40 million to income tax benefit and expense, respectively, resulting from revised interim tax calculations.

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24.0	Powers of Attorney
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer.
32.2	Section 906 Certification of the Chief Financial Officer.
101.INS-XBRL	Instance Document.
101.SCH-XBRL	Taxonomy Extension Schema Document.
101.CAL-XBRL	Taxonomy Extension Calculation Linkbase Document.
101.LAB-XBRL	Taxonomy Extension Label Linkbase Document.
101.PRE-XBRL	Taxonomy Extension Presentation Linkbase Document.
101.DEF-XBRL	Taxonomy Extension Definition Linkbase Document.

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Joseph D. Emanuel, Stephen Pelletier, and Thomas J. Diemer, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, and to do any and all things and execute any and all instruments that such attorneys-in-fact may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission (the "Commission"), in connection with the filing with the Commission of an Annual Report on Form 10-K of Pruco Life Insurance Company (the "Registrant") for the fiscal year ended December 31, 2011 (the "Form 10-K"), including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together with all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully and for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all that said attorneys-in-fact, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 10th day of February, 2012.

/s/James J. Avery

James J. Avery

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Joseph D. Emanuel, Stephen Pelletier, and Thomas J. Diemer, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, and to do any and all things and execute any and all instruments that such attorneys-in-fact may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission (the "Commission"), in connection with the filing with the Commission of an Annual Report on Form 10-K of Pruco Life Insurance Company (the "Registrant") for the fiscal year ended December 31, 2011 (the "Form 10-K"), including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together with all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully and for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all that said attorneys-in-fact, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 9th day of February, 2012.

/s/Robert M. Falzon

Robert M. Falzon

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Joseph D. Emanuel, Stephen Pelletier, and Thomas J. Diemer, and each of them severally, her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in her name, place and stead, in any and all capacities, and to do any and all things and execute any and all instruments that such attorneys-in-fact may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission (the "Commission"), in connection with the filing with the Commission of an Annual Report on Form 10-K of Pruco Life Insurance Company (the "Registrant") for the fiscal year ended December 31, 2011 (the "Form 10-K"), including specifically, but without limiting the generality of the foregoing, the power and authority to sign her name in her capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together with all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully and for all intents and purposes as she might or could do in person, and hereby ratifies and confirms all that said attorneys-in-fact, each acting alone, and her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of February, 2012.

/s/Yanela C. Frias

Yanela C. Frias

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Joseph D. Emanuel, Stephen Pelletier, and Thomas J. Diemer, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, and to do any and all things and execute any and all instruments that such attorneys-in-fact may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission (the "Commission"), in connection with the filing with the Commission of an Annual Report on Form 10-K of Pruco Life Insurance Company (the "Registrant") for the fiscal year ended December 31, 2011 (the "Form 10-K"), including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together with all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully and for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all that said attorneys-in-fact, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 9th day of February, 2012.

/s/Bernard J. Jacob

Bernard J. Jacob

CERTIFICATION

I, Robert F. O'Donnell, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Pruco Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 20, 2012

/s/ Robert F. O'Donnell

Robert F. O'Donnell
Chief Executive Officer

CERTIFICATION

I, Thomas J. Diemer, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Pruco Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 20, 2012

/s/ Thomas J. Diemer

Thomas J. Diemer
Vice President and Chief Financial Officer

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, I, Robert F. O'Donnell, Chief Executive Officer of Pruco Life Insurance Company (the "Company"), hereby certify that the Company's Annual Report on Form 10-K/A for the year ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 20, 2012

/s/ Robert F. O'Donnell

Name: Robert F. O'Donnell

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section § 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, I, Thomas Diemer, Chief Financial Officer of Pruco Life Insurance Company (the “Company”), hereby certify that the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2011 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 20, 2012

/s/ Thomas J. Diemer

Name: Thomas J. Diemer

Title: Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section § 1350 and is not being filed as part of the Report or as a separate disclosure document.