
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the Transition Period from to

Commission file number 333-18053

Pruco Life Insurance Company of New Jersey

(Exact name of Registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-2426091
(IRS Employer
Identification No.)

213 Washington Street, Newark, New Jersey 07102
(Address of principal executive offices) (Zip Code)

(973) 802-6000
(Registrant's Telephone Number, including area code)

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 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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting Company	☐

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

As of November 13, 2012, 400,000 shares of the Registrant's Common Stock (par value \$5), were outstanding. As of such date, Pruco Life Insurance Company, an Arizona company and an indirect wholly owned subsidiary of Prudential Financial, Inc., a New Jersey Corporation, owned all of the Registrant's Common Stock.

Pruco Life Insurance Company of New Jersey meets the conditions set forth in General Instruction (H)(1)(a) and (b) on Form 10-Q and is therefore filing this Form with the reduced disclosure format.

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FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "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 of New Jersey. There can be no assurance that future developments affecting Pruco Life Insurance Company of New Jersey 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 of New Jersey 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 for the year ended December 31, 2011 for discussion of certain risks relating to our businesses.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Pruco Life Insurance Company of New Jersey

Unaudited Interim Statements of Financial Position

As of September 30, 2012 and December 31, 2011 (in thousands, except share amounts)

	September 30, 2012	December 31, 2011
ASSETS		
Fixed maturities available for sale, at fair value (amortized cost: 2012—\$1,000,498; 2011—\$1,132,908)	\$ 1,095,344	\$ 1,219,904
Equity securities available for sale, at fair value (cost: 2012—\$1,362; 2011—\$1,521)	1,383	1,420
Trading account assets, at fair value	1,391	1,569
Policy loans	171,661	177,162
Short-term investments	3,005	1,069
Commercial mortgage and other loans	227,924	230,202
Other long-term investments	37,184	29,073
Total investments	1,537,892	1,660,399
Cash and cash equivalents	32,293	26,723
Deferred policy acquisition costs	291,972	262,895
Accrued investment income	14,856	17,275
Reinsurance recoverables	834,470	522,762
Receivables from parents and affiliates	29,170	23,148
Deferred sales inducements	66,872	48,102
Other assets	9,067	8,830
Separate account assets	8,041,072	6,258,008
TOTAL ASSETS	\$ 10,857,664	\$ 8,828,142
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances	\$ 1,174,269	\$ 1,133,080
Future policy benefits and other policyholder liabilities	820,256	691,967
Cash collateral for loaned securities	4,156	17,012
Securities sold under agreements to repurchase	0	3,216
Income taxes	7,184	23,178
Short-term debt to affiliates	27,010	26,000
Long-term debt to affiliates	44,000	44,000
Payables to parent and affiliates	6,885	2,267
Other liabilities	102,846	67,081
Separate account liabilities	8,041,072	6,258,008
TOTAL LIABILITIES	10,227,678	8,265,809
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)		
EQUITY		
Common stock, (\$5 par value; 400,000 shares, authorized, issued and outstanding)	2,000	2,000
Additional paid-in capital	211,049	207,928
Retained earnings	371,515	305,281
Accumulated other comprehensive income	45,422	47,124
TOTAL EQUITY	629,986	562,333
TOTAL LIABILITIES AND EQUITY	\$ 10,857,664	\$ 8,828,142

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Unaudited Interim Statements of Operations and Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2012 and 2011 (in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES				
Premiums	\$ 3,330	\$ 3,674	\$ 10,081	\$ 10,610
Policy charges and fee income	34,112	23,385	106,077	84,387
Net investment income	22,623	19,189	62,144	57,235
Asset administration fees	7,754	5,663	21,250	15,750
Other income	1,970	901	3,562	2,517
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(3,236)	(2,501)	(3,852)	(5,145)
Other-than-temporary impairments on fixed maturity securities transferred to				
Other comprehensive income	2,276	2,337	2,382	4,933
Other realized investment gains, net	797	(103,703)	7,045	(80,951)
Total realized investment gains, net	(163)	(103,867)	5,575	(81,163)
TOTAL REVENUES	69,626	(51,055)	208,689	89,336
BENEFITS AND EXPENSES				
Policyholders' benefits	8,201	3,190	30,449	22,520
Interest credited to policyholders' account balances	2,649	31,484	26,332	52,604
Amortization of deferred policy acquisition costs	(12,309)	63,727	12,624	84,930
General, administrative and other expenses	16,601	13,167	48,128	37,432
TOTAL BENEFITS AND EXPENSES	15,142	111,568	117,533	197,486
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	54,484	(162,623)	91,156	(108,150)
Income tax expense (benefit)	14,191	(61,199)	24,922	(45,522)
NET INCOME (LOSS)	\$ 40,293	\$(101,424)	\$ 66,234	\$ (62,628)
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	30	(99)	(8)	8
Unrealized investment gains (losses) for the period	(10,373)	14,966	(4,754)	18,203
Reclassification adjustment for (gains) losses included in net income	1,307	633	2,143	6,529
Net unrealized investment gains (losses)	(9,066)	15,599	(2,611)	24,732
Other comprehensive income (loss), before tax:	(9,036)	15,500	(2,619)	24,740
Less: Income tax expense (benefit) related to:				
Foreign currency translation adjustments	10	(35)	(3)	3
Net unrealized investment gains (losses)	(3,173)	5,461	(914)	8,657
Total	(3,163)	5,426	(917)	8,660
Other comprehensive income (loss), net of tax:	(5,873)	10,074	(1,702)	16,080
COMPREHENSIVE INCOME (LOSS)	\$ 34,420	\$ (91,350)	\$ 64,532	\$ (46,548)

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

**Unaudited Interim Statements of Equity
Nine Months Ended September 30, 2012 and 2011 (in thousands)**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Equity</u>
Balance, December 31, 2011	\$ 2,000	\$ 207,928	\$305,281	\$ 47,124	\$ 562,333
Contributed capital- parent/child asset transfers	—	3,121	—	—	3,121
Comprehensive income:					
Net income	—	—	66,234	—	66,234
Other comprehensive income (loss), net of tax	—	—	—	(1,702)	(1,702)
Total comprehensive income	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>64,532</u>
Balance, September 30, 2012	<u>\$ 2,000</u>	<u>\$ 211,049</u>	<u>\$371,515</u>	<u>\$ 45,422</u>	<u>\$ 629,986</u>
	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Equity</u>
Balance, December 31, 2010	\$ 2,000	\$ 169,742	\$430,663	\$ 25,284	\$ 627,689
Cumulative effect of adoption of accounting principle	—	—	(65,595)	3,846	(61,749)
Contributed Capital	—	21,000	—	—	21,000
Comprehensive income:					
Net income	—	—	(62,628)	—	(62,628)
Other comprehensive income (loss), net of tax	—	—	—	16,080	16,080
Total comprehensive income	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(46,548)</u>
Balance, September 30, 2011	<u>\$ 2,000</u>	<u>\$ 190,742</u>	<u>\$302,440</u>	<u>\$ 45,210</u>	<u>\$ 540,392</u>

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Unaudited Interim Statements of Cash Flows
Nine Months Ended September 30, 2012 and 2011 (in thousands)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	\$ 66,234	\$ (62,628)
Adjustments to reconcile net income to net cash provided by operating activities:		
Policy charges and fee income	(14,918)	(19,410)
Interest credited to policyholders' account balances	26,332	52,604
Realized investment (gains) losses, net	(5,575)	81,163
Amortization and other non-cash items	(6,999)	(1,642)
Change in:		
Future policy benefits and other insurance liabilities	100,060	71,597
Reinsurance recoverables	(73,427)	(49,300)
Accrued investment income	679	(73)
Receivables from parent and affiliates	(6,720)	(408)
Payables to parent and affiliates	4,617	(3,906)
Deferred policy acquisition costs	(61,487)	14,642
Income taxes payable	29,787	(77,073)
Deferred sales inducements	(18,340)	(17,934)
Other, net	15,848	(14,445)
Cash flows from (used in) operating activities	\$ 56,091	\$ (26,813)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	\$ 117,449	\$ 119,484
Short-term investments	6,441	5,248
Policy loans	14,710	15,783
Ceded Policy Loans	(142)	—
Commercial mortgage and other loans	13,678	17,393
Other long-term investments	2,437	—
Equity securities, available for sale	2,660	473
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(133,093)	(209,977)
Short-term investments	(8,377)	—
Policy loans	(16,763)	(10,701)
Ceded Policy Loans	6,524	—
Commercial mortgage and other loans	(47,074)	(46,433)
Other long-term investments	(7,164)	(4,747)
Equity securities, available for sale	(2,508)	(1,296)
Notes receivable from parent and affiliates, net	1,370	1,244
Other	(54)	—
Cash flows from (used in) investing activities	\$ (49,906)	\$ (113,529)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Policyholders' account deposits	\$ 148,220	\$ 119,570
Ceded Policyholders' account deposits	(39,838)	—
Policyholders' account withdrawals	(93,262)	(49,762)
Ceded Policyholders' account withdrawals	600	—
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	(16,072)	30,552
Contributed capital	—	21,000
Net change in financing arrangements (maturities 90 days or less)	1,010	—
Drafts outstanding	(1,273)	76,635
Net change in long-term borrowing	—	—
Cash flows from (used in) financing activities	\$ (615)	\$ 197,995
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,570	57,653
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,723	87,961
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 32,293	\$ 145,614

See Notes to Unaudited Interim Financial Statements

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Cash Flows from Investing Activities in the September 30, 2012 Unaudited Interim Statement of Cash Flows excludes \$202 million of decreases in fixed maturities, available for sale and commercial mortgages related to the coinsurance transaction between the Company and PAR U, an affiliate (See Note 8). The assets transferred included \$156 million of consideration for the initial premium due under the coinsurance agreement with this affiliate and \$46 million to Prudential Financial, the Company's ultimate parent company, to settle tax expenses arising from this coinsurance transaction.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company of New Jersey, or the (“Company”), is a wholly owned subsidiary of the Pruco Life Insurance Company, or (“Pruco Life”), which in turn is a wholly owned subsidiary of The Prudential Insurance Company of America, (“Prudential Insurance”). Prudential Insurance is an indirect wholly owned subsidiary of Prudential Financial, Inc., or (“Prudential Financial”). The Company is licensed to sell life insurance and annuities, primarily through third party distributors only in New Jersey and New York.

Basis of Presentation

The Unaudited Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States, or “U.S. GAAP,” on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). In the opinion of management, all adjustments necessary for a fair statement of the consolidated results of operations and financial condition of the Company have been made. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results that may be expected for the full year.

The Company has extensive transactions and relationships with Prudential Insurance and other affiliates, (as more fully described in Note 8). 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. These financial statements should be read in conjunction with the Audited Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Use of Estimates

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

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Investments and Investment Related Liabilities

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

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as "available-for-sale" are carried at fair value. See Note 4 for additional information regarding the determination of fair value. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount, is included in "Net investment income" under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also vary based on other assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions can significantly impact income recognition and the amount of other-than-temporary impairments recognized in earnings and other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For asset-backed and mortgage-backed securities rated below AA, or those for which an other than temporary impairment has been recorded, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Unrealized gains and losses on fixed maturities classified as "available-for-sale," net of tax, and the effect on deferred policy acquisition costs, 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 earned.

Trading account assets at fair value are comprised of perpetual preferred stock. Realized and unrealized gains and losses for these investments are reported in "Other income." 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 will not be collected according to the contractual terms of the loan agreement. The Company defines "past due" as principal or interest not collected at least 30 days past the scheduled contractual due date. Interest received on loans that are past due, including impaired and non-impaired loans as well as loans that were previously modified in a troubled debt restructuring, is either applied against the principal or reported as net investment income based on the Company's assessment as to the collectability of the principal. See Note 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 will not be collected according to the contractual terms of the loan agreement.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim 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 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 OF NEW JERSEY
Notes to Unaudited Interim 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 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)” (“OCI”). 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 interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security’s position within the capital structure of the issuer.

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

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 8). 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 OF NEW JERSEY
Notes to Unaudited Interim 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 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 5, 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 Unaudited Interim 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)" to the extent they are effective, 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 4, and are recorded in "Realized investment gains (losses), net."

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Notes to Unaudited Interim Financial Statements - (Continued)

Effective July 1, 2012, the Company entered into a new coinsurance agreement with an affiliate, Prudential Arizona Reinsurance Universal Company, ("PAR U"). The settlement of the initial coinsurance premium occurred subsequent to the effective date of the coinsurance agreement. As a result, the settlement was treated as if settled on the effective date and adjusted for the time elapsed between this date and the settlement date. The adjustment to the initial coinsurance premium was equal to the earned interest and changes in market values from the effective date through the settlement date related to fixed maturity and commercial mortgage securities from an asset portfolio within the Company. The settlement feature of this agreement was accounted for as a derivative (See Note 8 for additional information about this agreement).

Income Taxes

The Company determines its interim tax provision using the annual effective tax rate methodology in accordance with the authoritative guidance. The increase in the income tax expense for the three months and nine months ended September 30, 2012 and change in effective tax rate was primarily driven by an increase in pre-tax income for the three months and nine months ended September 30, 2012 compared to the three months and nine months ended September 30, 2011.

Adoption of New Accounting Pronouncements

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 Unaudited Interim Financial Statements included herein reflect the adoption of this updated guidance.

Effective January 1, 2012, the Company adopted, prospectively, 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. The expanded disclosures required by this guidance are included in Note 4. Adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

Effective January 1, 2012, the Company adopted, prospectively, updated guidance regarding the assessment of effective control for repurchase agreements. The Company's adoption of this guidance did not have a material effect on the Company's financial position, results of operations, and financial statement disclosures.

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 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, and the adjusted amounts that are reflected in the Unaudited Interim Financial Statements included herein.

Unaudited Interim Statements of Financial Position:

	December 31, 2011		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
Deferred policy acquisition costs	\$ 354,167	\$(91,272)	\$ 262,895
TOTAL ASSETS	8,919,414	(91,272)	8,828,142
Policyholders' account balances	1,132,897	183	1,133,080
Income taxes	55,188	(32,010)	23,178
TOTAL LIABILITIES	8,297,636	(31,827)	8,265,809
Retained earnings	370,352	(65,071)	305,281
Accumulated other comprehensive income	41,498	5,626	47,124
TOTAL EQUITY	621,778	(59,445)	562,333
TOTAL LIABILITIES AND EQUITY	\$8,919,414	\$(91,272)	\$8,828,142

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Unaudited Interim Statements of Operations:

	Three Months Ended September 30, 2011		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
REVENUES			
Policy charges and fee income	\$ 23,359	\$ 26	\$ 23,385
Total revenues	(51,081)	26	(51,055)
BENEFITS AND EXPENSES			
Amortization of deferred policy acquisition costs	71,876	(8,149)	63,727
General, administrative and other expenses	9,653	3,514	13,167
Total benefits and expenses	116,203	(4,635)	111,568
INCOME FROM OPERATIONS BEFORE INCOME TAXES	(167,284)	4,661	(162,623)
Income tax expense (benefit)	(62,779)	1,580	(61,199)
NET INCOME	\$ (104,505)	\$ 3,081	\$ (101,424)

	Nine Months Ended September 30, 2011		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
REVENUES			
Policy charges and fee income	\$ 84,363	\$ 24	\$ 84,387
Total revenues	89,312	24	89,336
BENEFITS AND EXPENSES			
Amortization of deferred policy acquisition costs	98,172	(13,242)	84,930
General, administrative and other expenses	26,655	10,777	37,432
Total benefits and expenses	199,951	(2,465)	197,486
INCOME FROM OPERATIONS BEFORE INCOME TAXES	(110,639)	2,489	(108,150)
Income tax expense (benefit)	(46,504)	982	(45,522)
NET INCOME	\$ (64,135)	\$ 1,507	\$ (62,628)

Unaudited Interim Statements of Cash Flows:

	Nine Months Ended September 30, 2011		
	As Previously Reported	Effect of Change (in thousands)	As Currently Reported
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ (64,135)	\$ 1,507	\$ (62,628)
Policy charges and fee income	(19,386)	(24)	(19,410)
Change in:			
Deferred policy acquisition costs	17,107	(2,465)	14,642
Income taxes payable	(78,055)	982	(77,073)
Cash flows from (used in) operating activities	\$ (26,813)	\$ —	\$ (26,813)

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

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:

	September 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in thousands)	Fair Value	Other-than- temporary impairments in AOCI (3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 25,775	\$ 5,918	\$ —	\$ 31,693	\$ —
Obligations of U.S. states and their political subdivisions	2,789	189	—	2,978	—
Foreign government bonds	11,539	1,783	—	13,322	—
Public utilities	96,803	10,484	—	107,287	—
All other corporate securities	666,072	61,553	206	727,419	(45)
Asset-backed securities (1)	57,812	1,933	758	58,987	(2,388)
Commercial mortgage-backed securities	72,833	8,028	12	80,849	—
Residential mortgage-backed securities (2)	66,875	5,934	—	72,809	(344)
Total fixed maturities, available-for-sale	<u>\$1,000,498</u>	<u>\$ 95,822</u>	<u>\$ 976</u>	<u>\$1,095,344</u>	<u>\$ (2,777)</u>
Equity securities, available-for-sale					
Common Stocks:					
Industrial, miscellaneous & other	309	73	64	318	
Non-redeemable preferred stocks	1,053	12	—	1,065	
Total equity securities, available-for-sale	<u>\$ 1,362</u>	<u>\$ 85</u>	<u>\$ 64</u>	<u>\$ 1,383</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 \$2 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, 2011 (4)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in thousands)	Fair Value	Other-than- temporary impairments in AOCI (3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 29,889	\$ 6,049	\$ —	\$ 35,938	\$ —
Obligations of U.S. states and their political subdivisions	2,793	33	—	2,826	—
Foreign government bonds	20,868	2,163	—	23,031	—
Public utilities	97,991	8,842	54	106,779	—
All other corporate securities	732,330	57,705	793	789,242	(45)
Asset-backed securities (1)	72,050	1,647	2,065	71,632	(3,513)
Commercial mortgage-backed securities	89,238	6,770	2	96,006	—
Residential mortgage-backed securities (2)	87,749	6,859	158	94,450	(391)
Total fixed maturities, available-for-sale	<u>\$1,132,908</u>	<u>\$ 90,068</u>	<u>\$ 3,072</u>	<u>\$1,219,904</u>	<u>\$ (3,949)</u>
Equity securities, available-for-sale					
Common Stocks:					
Industrial, miscellaneous & other	405	—	70	335	
Non-redeemable preferred stocks	1,116	1	32	1,085	
Total equity securities available-for-sale	<u>\$ 1,521</u>	<u>\$ 1</u>	<u>\$ 102</u>	<u>\$ 1,420</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 AOCI, which were not included in earnings. Amount excludes \$3 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.

(4) Prior period's amounts are presented on a basis consistent with the current period presentation.

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Notes to Unaudited Interim Financial Statements - (Continued)

The amortized cost and fair value of fixed maturities by contractual maturities at September 30, 2012, are as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	\$ 91,644	\$ 94,247
Due after one year through five years	273,075	296,942
Due after five years through ten years	243,967	273,618
Due after ten years	194,292	217,892
Asset-backed securities	57,812	58,987
Commercial mortgage-backed securities	72,833	80,849
Residential mortgage-backed securities	66,875	72,809
Total	<u>\$ 1,000,498</u>	<u>\$ 1,095,344</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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Fixed maturities, available-for-sale				
Proceeds from sales	\$ 2,942	\$ 1,410	\$ 8,927	\$19,800
Proceeds from maturities/repayments	31,180	40,007	108,762	99,593
Gross investment gains from sales, prepayments, and maturities	10,609	339	12,427	1,808
Gross investment losses from sales and maturities	(1)	—	(1)	(44)
Equity securities, available-for-sale				
Proceeds from sales	\$ 2,660	\$ —	\$ 2,660	\$ 473
Proceeds from maturities/repayments	—	—	—	—
Gross investment gains from sales	146	—	146	—
Gross investment losses from sales	—	—	—	—
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings (1)	\$ (960)	\$ (164)	\$ (1,470)	\$ (212)
Writedowns for other-than-temporary impairment losses on equity securities	(31)	(74)	(152)	(264)

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

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

	Three Months Ended September 30, 2012	(in thousands)	Nine Months Ended September 30, 2012
Balance, beginning of period	\$ 2,499		\$ 3,438
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(69)		(944)
Credit loss impairments previously recognized on securities impaired to fair value during the period (1)	—		—
Credit loss impairment recognized in the current period on securities not previously impaired	—		—
Additional credit loss impairments recognized in the current period on securities previously impaired	70		70
Increases due to the passage of time on previously recorded credit losses	16		61
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(114)		(223)
Balance, end of period	<u>\$ 2,402</u>		<u>\$ 2,402</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.

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	Three Months Ended September 30, 2011	(in thousands)	Nine Months Ended September 30, 2011
Balance, beginning of period	\$ 3,540		\$ 6,763
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(294)		(3,494)
Credit loss impairments previously recognized on securities impaired to fair value during the period	—		—
Credit loss impairment recognized in the current period on securities not previously impaired	—		—
Additional credit loss impairments recognized in the current period on securities previously impaired	164		213
Increases due to the passage of time on previously recorded credit losses	88		236
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(25)		(245)
Balance, end of period	<u>\$ 3,473</u>		<u>\$ 3,473</u>

Trading Account Assets

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

	September 30, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in thousands)		
Trading account assets				
Equity securities (1)	<u>\$ 1,695</u>	<u>\$1,391</u>	<u>\$ 1,695</u>	<u>\$1,569</u>

(1) Included in equity securities are perpetual preferred stock securities that have characteristics of both debt and equity securities.

The net change in unrealized gains (losses) from trading account assets still held at period end, recorded within “Other income” included \$0.2 million of losses during the three months ended September 30, 2012 and 2011, respectively, and \$0.2 million of losses and \$0.2 million of losses during the nine months ended September 30, 2012 and 2011, respectively.

Commercial Mortgage and Other Loans

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

	September 30, 2012		December 31, 2011	
	Amount (in thousands)	% of Total	Amount (in thousands)	% of Total
Commercial mortgage and other loans by property type:				
Industrial	\$ 45,253	19.7 %	\$ 42,884	18.5 %
Retail	64,898	28.3	55,216	23.8
Apartments/Multi-Family	48,731	21.2	37,689	16.3
Office	23,276	10.1	26,100	11.3
Hospitality	14,377	6.3	14,475	6.2
Other	12,322	5.4	37,150	16.1
Total commercial mortgage loans by property type	208,857	91.0	213,514	92.2
Agricultural property loans	20,542	9.0	18,098	7.8
Total commercial mortgage and agricultural loans by property type	229,399	100.0 %	231,612	100.0 %
Valuation allowance	(1,475)		(1,410)	
Total net commercial and agricultural mortgage loans by property type	<u>\$ 227,924</u>		<u>\$ 230,202</u>	

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

The commercial mortgage and agricultural loans are geographically dispersed throughout the United States with the largest concentrations in Florida (12%), Texas (12%), and Illinois (11%) at September 30, 2012.

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

	September 30, 2012	December 31, 2011
	(in thousands)	
Allowance for losses, beginning of year	\$ 1,410	\$ 1,409
Addition to / (release of) allowance of losses	65	1
Allowance for losses, end of year (1)	<u>\$ 1,475</u>	<u>\$ 1,410</u>

(1) Agricultural loans represent \$0.03 million and \$0.02 million of the ending allowance at September 30, 2012 and December 31, 2011, respectively.

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

	September 30, 2012	December 31, 2011
	Total Loans (in thousands)	
Allowance for Credit Losses:		
Ending balance: individually evaluated for impairment (1)	\$ —	\$ —
Ending balance: collectively evaluated for impairment (2)	1,475	1,410
Total ending balance	<u>\$ 1,475</u>	<u>\$ 1,410</u>
Recorded Investment: (3)		
Ending balance gross of reserves: individually evaluated for impairment (1)	\$ —	\$ —
Ending balance gross of reserves: collectively evaluated for impairment (2)	229,399	231,612
Total ending balance, gross of reserves	<u>\$ 229,399</u>	<u>\$ 231,612</u>

(1) There were no agricultural loans individually evaluated for impairments at September 30, 2012 and December 31, 2011.

(2) Agricultural loans collectively evaluated for impairment had a recorded investment of \$21 million and \$8 million with no related allowances at September 30, 2012 and December 31, 2011, respectively.

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

Impaired loans include those loans for which it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. As of both September 30, 2012 and December 31, 2011, there were no impaired commercial mortgage loans identified in management's specific review.

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 both September 30, 2012 and December 31, 2011, 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 September 30, 2012 and December 31, 2011, 94% of the \$217 million recorded investment and 94% of the \$232 million recorded investment, respectively, had a loan-to-value ratio of less than 80%. As of September 30, 2012 and December 31, 2011, 98% and 99% of the recorded investment, respectively, had a debt service coverage ratio of 1.0X or greater. As of September 30, 2012, approximately \$4 million or 2% 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, 2011, approximately \$2 million or 1% 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 both September 30, 2012 and December 31, 2011, all commercial mortgage and other loans were in current status. The Company defines current in its aging of past due commercial mortgage and agricultural loans as less than 30 days past due.

Commercial mortgage and other loans on nonaccrual status totaled \$0 million and \$3.2 million as of September 30, 2012 and December 31, 2011, respectively, and were primarily related to Hospitality. Nonaccrual loans are those on which the accrual of interest has been suspended after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability and loans for which a loan specific reserve has been established. See Note 2 for further discussion regarding nonaccrual status loans.

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Notes to Unaudited Interim Financial Statements - (Continued)

For the three months ended September 30, 2012, there were no commercial mortgage and other loans sold or acquired.

Net Investment Income

Net investment income for the three and nine months ended September 30, 2012 and 2011, was from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Fixed maturities, available-for-sale	\$14,460	\$14,518	\$43,717	\$42,620
Equity securities, available-for-sale	1	2	9	16
Trading account assets	4	3	12	3
Commercial mortgage and other loans	3,790	3,047	10,512	9,019
Policy loans	2,340	2,308	7,035	7,025
Short-term investments and cash equivalents	27	18	55	62
Other long-term investments	2,919	103	3,508	889
Gross investment income	23,541	19,999	64,848	59,634
Less: investment expenses	(918)	(810)	(2,704)	(2,399)
Net investment income	<u>\$22,623</u>	<u>\$19,189</u>	<u>\$62,144</u>	<u>\$57,235</u>

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and nine months ended September 30, 2012 and 2011 were from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Fixed maturities	\$ 9,649	\$ 175	\$10,956	\$ 1,552
Equity securities	114	(74)	(6)	103
Commercial mortgage and other loans	3,533	(128)	3,613	(348)
Short-term investments and cash equivalents	—	—	—	—
Joint ventures and limited partnerships	—	(44)	—	(44)
Derivatives	(13,459)	(103,796)	(8,988)	(82,426)
Realized investment gains (losses), net	<u>\$ (163)</u>	<u>\$ (103,867)</u>	<u>\$ 5,575</u>	<u>\$ (81,163)</u>

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

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 Company’s Unaudited Interim Statements of Financial Position as a component of 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	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in thousands)		
Balance, December 31, 2011	\$ (1,417)	\$ 739	\$ (142)	\$ 287	\$ (533)
Net investment gains (losses) on investments arising during the period	226	—	—	(79)	147
Reclassification adjustment for (gains) losses included in net income	730	—	—	(256)	474
Reclassification adjustment for OTTI losses excluded from net income(1)	(106)	—	—	37	(69)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	(377)	—	132	(245)
Impact of net unrealized investment (gains) losses on policyholders’ account balances	—	—	157	(55)	102
Balance, September 30, 2012	\$ (567)	\$ 362	\$ 15	\$ 66	\$ (124)

(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.

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	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in thousands)		
Balance, December 31, 2011	\$ 89,602	\$ (31,698)	\$ 15,379	\$ (25,649)	\$ 47,634
Net investment gains (losses) on investments arising during the period	18,746	—	—	(6,561)	12,185
Reclassification adjustment for (gains) losses included in net income	(11,679)	—	—	4,088	(7,391)
Reclassification adjustment for OTTI losses excluded from net income(2)	106	—	—	(37)	69
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	(8,655)	—	3,029	(5,626)
Impact of net unrealized investment (gains) losses on policyholders’ account balances	—	—	(1,757)	615	(1,142)
Balance, September 30, 2012	\$ 96,775	\$ (40,353)	\$ 13,622	\$ (24,515)	\$ 45,529

(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.

The table below presents net unrealized gains (losses) on investments by asset class as of the dates indicated:

	September 30, 2012	December 31, 2011
	(in thousands)	
Fixed maturity securities on which an OTTI loss has been recognized	\$ (567)	\$ (1,417)
Fixed maturity securities, available-for-sale - all other	95,413	88,414
Equity securities, available-for-sale	21	(100)
Derivatives designated as cash flow hedges (1)	(486)	(630)
Other investments	1,827	1,918
Net unrealized gains (losses) on investments	\$ 96,208	\$ 88,185

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Duration of Gross Unrealized Loss Positions for Fixed Maturities

The following tables 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 September 30, 2012 and December 31, 2011:

	September 30, 2012					
	Less than twelve months	Gross Unrealized Losses	Twelve months or more	Gross Unrealized Losses	Total	Gross Unrealized Losses
	Fair Value		Fair Value		Fair Value	
	(in thousands)					
Fixed maturities, available-for-sale						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of U.S. states and their political subdivisions	—	—	—	—	—	—
Foreign government bonds	—	—	—	—	—	—
Corporate securities	27,739	100	982	106	28,721	206
Commercial mortgage-backed securities	—	—	545	12	545	12
Asset-backed securities	—	—	8,239	758	8,239	758
Residential mortgage-backed securities	—	—	—	—	—	—
Total	\$27,739	\$ 100	\$ 9,766	\$ 876	\$37,505	\$ 976

	December 31, 2011					
	Less than twelve months	Gross Unrealized Losses	Twelve months or more	Gross Unrealized Losses	Total	Gross Unrealized Losses
	Fair Value		Fair Value		Fair Value	
	(in thousands)					
Fixed maturities, available-for-sale						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of U.S. states and their political subdivisions	—	—	—	—	—	—
Corporate securities	31,041	670	998	177	32,039	847
Asset-backed securities	33,246	285	7,384	1,780	40,630	2,065
Commercial mortgage-backed securities	—	—	1,051	2	1,051	2
Residential mortgage-backed securities	4,367	158	—	—	4,367	158
Total	\$68,654	\$ 1,113	\$ 9,433	\$ 1,959	\$78,087	\$ 3,072

The gross unrealized losses at September 30, 2012 and December 31, 2011 are composed of both \$0 million related to high or highest quality securities based on National Association of Insurance Commissioners, or "NAIC", or equivalent rating and \$1 million and \$2 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At September 30, 2012, \$0 million of the gross unrealized losses represented declines in value of greater than 20%, none of which had been in that position for less than six months, as compared to \$1.6 million at December 31, 2011 that represented declines in value of greater than 20%, \$0.1 million of which had been in that position for less than six months. At September 30, 2012 and December 31, 2011, the \$1 million and \$2 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 September 30, 2012 or December 31, 2011. 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 September 30, 2012, 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Duration of Gross Unrealized Loss Positions for Equity Securities

The following table shows the fair value and gross unrealized losses aggregated by length of time that individual equity securities have been in a continuous unrealized loss position, at September 30, 2012 and December 31, 2011:

	September 30, 2012		September 30, 2012		Total	
	Less than twelve months	Gross Unrealized Losses	Twelve months or more	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Fair Value		Fair Value		Fair Value	
			(in thousands)			
Equity securities, available-for-sale	<u>\$ 25</u>	<u>\$ 64</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25</u>	<u>\$ 64</u>

	December 31, 2011		December 31, 2011		Total	
	Less than twelve months	Gross Unrealized Losses	Twelve months or more	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Fair Value		Fair Value		Fair Value	
			(in thousands)			
Equity securities, available-for-sale	<u>\$ 316</u>	<u>\$ 102</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$316</u>	<u>\$ 102</u>

At September 30, 2012, \$0.1 million of the gross unrealized losses represented declines in value of greater than 20%, all of which have been in that position for less than nine months. At December 31, 2011, \$0.1 million of the gross unrealized losses represented declines of greater than 20%, all of which have been in that position for less than six months. 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 September 30, 2012 or December 31, 2011.

4. 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 establishes 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. The Company's Level 1 assets and liabilities primarily include certain cash equivalents and short term investments and equity securities that trade on an active exchange market.

Level 2 - Fair value is based on significant inputs, other than quoted prices included in Level 1, 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), certain short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter derivatives.

Level 3 - Fair value is based on at least one or more significant unobservable inputs for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. 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 consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits.

The Company has established policies and guidelines that require the establishment of valuation methodologies and consistent application of such methodologies. These policies and guidelines govern the use of inputs and price source hierarchies and provide controls around the valuation processes. These controls include appropriate review and analysis of prices against market activity or indicators of reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. The valuation policies and guidelines are reviewed and updated as appropriate.

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

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 September 30, 2012				
	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	\$ —	\$ 31,693	\$ —	\$ —	\$ 31,693
Obligations of U.S. states and their political subdivisions	—	2,978	—	—	2,978
Foreign government bonds	—	13,322	—	—	13,322
Corporate securities	—	828,220	6,486	—	834,706
Asset-backed securities	—	44,654	14,333	—	58,987
Commercial mortgage-backed securities	—	80,849	—	—	80,849
Residential mortgage-backed securities	—	72,809	—	—	72,809
Sub-total	—	1,074,525	20,819	—	1,095,344
Trading account assets:					
Equity securities	—	—	1,391	—	1,391
Sub-total	—	—	1,391	—	1,391
Equity securities, available for sale:	255	64	1,064	—	1,383
Short-term investments	3,005	—	—	—	3,005
Cash equivalents	—	29,572	—	—	29,572
Other long-term investments	—	10,892	—	(2,102)	8,790
Reinsurance recoverables	—	—	97,386	—	97,386
Other assets	—	8,120	—	—	8,120
Sub-total excluding separate account assets	3,260	1,123,173	120,660	(2,102)	1,244,991
Separate account assets (1)	31,957	8,003,029	6,086	—	8,041,072
Total assets	\$ 35,217	\$ 9,126,202	\$ 126,746	\$ (2,102)	\$ 9,286,063
Future policy benefits	—	—	131,657	—	131,657
Other liabilities	—	2,102	—	(2,102)	—
Total liabilities	\$ —	\$ 2,102	\$ 131,657	\$ (2,102)	\$ 131,657

	As of December 31, 2011 (3)				
	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	\$ —	\$ 35,938	\$ —	\$ —	\$ 35,938
Obligations of U.S. states and their political subdivisions	—	2,826	—	—	2,826
Foreign government bonds	—	23,031	—	—	23,031
Corporate securities	—	894,266	1,755	—	896,021
Asset-backed securities	—	53,005	18,627	—	71,632
Commercial mortgage-backed securities	—	96,006	—	—	96,006
Residential mortgage-backed securities	—	94,450	—	—	94,450
Sub-total	—	1,199,522	20,382	—	1,219,904
Trading account assets:					
Equity securities	—	—	1,569	—	1,569
Sub-total	—	—	1,569	—	1,569
Equity securities, available for sale:	276	—	1,144	—	1,420
Short-term investments	1,069	—	—	—	1,069
Cash equivalents	10,000	14,381	—	—	24,381
Other long-term investments	—	8,764	18	(2,094)	6,688
Reinsurance recoverables	—	—	53,677	—	53,677
Other assets	—	8,647	—	—	8,647
Sub-total excluding separate account assets	11,345	1,231,314	76,790	(2,094)	1,317,355
Separate account assets (1)	141,133	6,110,880	5,995	—	6,258,008
Total assets	\$ 152,478	\$ 7,342,194	\$ 82,785	\$ (2,094)	\$ 7,575,363
Future policy benefits	—	—	76,996	—	76,996
Other liabilities	—	2,094	—	(2,094)	—
Total liabilities	\$ —	\$ 2,094	\$ 76,996	\$ (2,094)	\$ 76,996

- (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 Unaudited Interim Statement of Financial Position.
- (2) "Netting" amounts represent the impact of offsetting asset and liability positions held within the same counterparty.
- (3) Includes reclassifications to conform to current period presentation.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

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.

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. 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 with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity. 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 September 30, 2012 and December 31, 2011, over-rides on a net basis were not material. 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. Pricing service over-rides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The fair value of private fixed maturities, which are comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. In cases where these models primarily use observable inputs, the 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. In these cases, 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 are comprised of perpetual preferred stock whose fair values are determined consistent with similar instruments described below under "Equity Securities."

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 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. As these models may use unobservable inputs, most privately traded equity securities are classified within Level 3. The fair values of 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 perpetual preferred stock are based on inputs obtained from independent pricing services that are primarily based on indicative broker quotes, as the directly observable market inputs are not available. As a result, the fair values of perpetual preferred stock are classified as Level 3.

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 is 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 that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate, 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.

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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 that are not otherwise collateralized.

Derivatives classified as Level 3 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. Other 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 September 30, 2012 and December 31, 2011, there were derivatives with the fair value of \$0 and \$18 thousand classified within Level 3, and all other derivatives were classified within Level 2. See Note 5 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. Certain money market instruments are 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 generally based on market observable inputs and, accordingly, these investments have been primarily classified within Level 2 in the fair value hierarchy.

Separate Account Assets - Separate Account Assets include fixed maturity securities, treasuries, equity securities and real estate investments for which values are determined consistent with similar instruments described above under "Fixed Maturity Securities," "Equity Securities" and "Other Long-Term Investments."

Other Assets - Other assets carried at fair value include affiliated bonds within our legal entity whose fair value are determined consistent with similar securities described above under "Fixed Maturity Securities" managed by affiliated asset managers.

Reinsurance Recoverables - Reinsurance recoverables carried at fair value include the reinsurance of our living benefit guarantees on certain of our variable annuities. These reinsurance recoverables are valued in the same manner as the living benefit guarantees as described below in "Future Policy Benefits".

Future Policy Benefits - The liability for future policy benefits primarily includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"), accounted for as embedded derivatives. The fair values of the GMAB, GMWB, and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management judgment.

The 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, the Company's market-perceived risk of its own non-performance ("NPR"), as well as various assumptions that are actuarially determined, including lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Since many of these assumptions 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.

Capital market inputs and actual policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets, and implied volatility. In the risk neutral valuation, interest rates are used to both grow the policyholders' account values as well as discount all projected future cash flows. The Company's discount rate assumption is based on the LIBOR swap curve, and is adjusted for NPR, as discussed below. Assuming all other assumptions remain unchanged, a decline in interest rates will generally cause account values to grow more slowly, increasing future expected benefit payments, as well as decreasing the discounting impact in the present value calculation, both of which would cause increases in the fair value of the liability. The opposite impacts occur as interest rates rise. Implied volatility also impacts the estimate of future expected benefit payments, as discussed below.

Actuarial assumptions are reviewed at least annually, and updated based upon historical experience giving consideration to any observable market data, including available industry studies or market transactions such as acquisitions and reinsurance transactions. Assumptions relating to contractholder behavior such as lapse, benefit utilization, withdrawal, and mortality rates, are based on experience by product type and/or year of contract issuance, as well as available industry studies. Unless a material change in contractholder behavior or mortality experience that the Company feels is indicative of a long term trend is observed in an interim periods, assumptions related to contractholder behavior and mortality are generally updated in the third quarter of each year by considering recent experience that has occurred during the period from the most recent update to the expected amounts or updates to industry studies. These assumptions require the use of management judgment and are discussed in further detail below.

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Level 3 Assets and Liabilities by Price Source - The table below presents the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources.

	As of September 30, 2012		
	Internal (1)	External (2) (in thousands)	Total
Corporate securities	5,565	921	6,486
Asset-backed securities	248	14,085	14,333
Equity securities	1,065	1,390	2,455
Reinsurance Recoverable	97,386	—	97,386
Sub-total excluding separate account assets	104,264	16,396	120,660
Separate account assets	6,086	—	6,086
Total assets	\$ 110,350	\$ 16,396	\$126,746
Future policy benefits	\$131,657	\$ —	\$131,657
Total liabilities	\$131,657	\$ —	\$131,657

- (1) Represents valuations reflecting both internally-derived and market inputs, as well as third-party pricing information or quotes. See below for additional information related to internally-developed valuation for significant items in the above table.
(2) Represents unadjusted prices from independent pricing services and independent indicative broker quotes where pricing inputs are not readily available.

Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities - The table below presents quantitative information on significant internally-priced Level 3 assets and liabilities for which the investment risks associated with market value changes are borne by the Company.

		As of September 30, 2012		
	Fair Value	Valuation Techniques	Unobservable Inputs (in thousands)	Range (Weighted Average)
Assets:				
Corporate securities	\$ 5,565	Discounted cash flow	Discount rate	\$12.00% - 17.50% (13.61%)
		Liquidation	Liquidation value	25% (25%)
Reinsurance recoverables	\$ 97,386	Fair values are determined in the same manner as future policy benefits		
Liabilities:				
Future policy benefits	\$ 131,657	Discounted cash flow	Lapse rate	0% - 14%
			NPR spread	0.24% - 1.82%
			Utilization rate	70% - 94%
			Withdrawal rate	85% - 100%
			Mortality rate (1)	0% - 13%
			Equity Volatility curve	19% - 34%

- (1) Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%.

Sensitivity to Changes in Unobservable Inputs - The following is a general description of sensitivities of significant unobservable inputs and their impact on the fair value measurement for the assets and liabilities reflected in the table above

Corporate Securities - Internally priced corporate securities classified in Level 3 include certain below investment grade watchlist and distressed fixed maturity securities. For securities where discounted cash flows are used, the primary unobservable input is an internally developed discount rate. Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement. In certain cases, the Company uses an estimated liquidation value of the borrower or underlying assets. In isolation, an increase (decrease) in the value of these inputs would result in a higher (lower) fair value measurement.

Reinsurance Recoverables - Reinsurance recoverables carried at fair value include the reinsurance of our living benefit guarantees on certain of our variable annuities. These reinsurance recoverables covering these guarantees are valued in the same manner as the living benefit guarantees as described below in "Future Policy Benefits".

Future Policy Benefits - Future policy benefits classified as Level 3 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,

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Notes to Unaudited Interim Financial Statements - (Continued)

and the general uncertainty around the timing and amount of future cash flows. As described above, the significant unobservable inputs to the valuation models for the embedded derivatives associated with the optional living benefit features of the Company's variable annuity products include various assumptions that are actuarially determined, including lapse rates, benefit utilization rates, withdrawal rates and mortality rates as well as volatility assumptions and assumptions used to reflect NPR.

The Company's dynamic lapse rate assumption adjusts the base lapse rate at the contract level based on a comparison of the actuarially calculated guaranteed amount and the current policyholder account value as well as other factors, such as the applicability of any surrender charges. The dynamic lapse adjustment reduces the base lapse rate based on the magnitude of the difference between the guaranteed amount and the account value. In-the-money contracts are those with a guaranteed benefit in excess of the current policyholder account value. Since in-the-money contracts are less likely to lapse, the dynamic lapse adjustment will reduce the lapse rate assumption for these contracts. For less in the money contracts, the lapse rate assumption will be closer to the base lapse rate. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. A higher base lapse rate is applied to contracts in the year the surrender charge period expires.

To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with its optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the financial strength ratings of the Company in the valuation of the liability or asset appropriately takes into consideration NPR. The additional spread over LIBOR 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. This additional spread, as mentioned in the table above, is applied at an individual contract level and only to those individual living benefit contracts in a liability position and generally not to those in a contra-liability position. An increase in the spread over LIBOR increases the discounting impact in the present value calculation and will generally cause a decrease in the fair value of the liability.

The Company's benefit utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, including the estimated timing of the first lifetime income withdrawal by the contractholder. These assumptions vary based on the product type, the age of the contractholder, and the age of the contract. The utilization rate varies by product, based on the availability of an enhanced guarantee after a certain waiting period. For example, the utilization rates for a product with the opportunity to double the guaranteed value after a 10, 12 or 20 year accumulation period are adjusted based on contractholder experience related to such enhancement. Generally, the Company assumes a certain percentage of contractholders will utilize the guaranteed benefit (depending on the product type, contractholder age and contract age) and will begin lifetime withdrawals at various time intervals from contract inception with the remaining contractholders either beginning lifetime withdrawals immediately or never utilizing the benefit. The impact of changes in these assumptions is highly dependent on the contract type and age of the contractholder at the time of the sale and the timing of the first lifetime income withdrawal.

The Company's withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. Larger differences in the withdrawal rate assumption compared to the contractual guaranteed income withdrawal percentage, either positive or negative, will generally result in a decrease in the fair value of the liability. Prior to the exhaustion of the contractholder's total account value the Company assumes contractholders will withdraw a certain percentage of the maximum allowable amount under the contract and will withdraw the maximum once the contractholder account value is completely exhausted.

Based on historical experience the Company applies a set of age specific mortality rate adjustments compared to standard industry tables. For newly issued contracts, lower mortality rates are assumed in early durations. A mortality improvement assumption is also incorporated into the overall mortality table. Since the variable annuity living benefits generally provide for a minimum withdrawal benefit for life, increases in mortality rates will decrease the fair value of the liability, with the reverse being true with decreases in mortality rates.

Market volatility also impacts the estimate of future expected benefit payments. The Company uses an equity volatility curve based on third party inputs. The curve starts with first year implied volatility and grades to a long-term realized volatility. The first year implied volatility determines the overall slope of the equity volatility curve. An increase in implied volatility will generally increase future expected benefit payments, causing an increase in the fair value of the liability.

Separate Account Assets - In addition to the significant internally-priced Level 3 assets and liabilities presented and described above, the Company also has internally-priced separate account assets reported within Level 3. Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company's Unaudited Interim Statement of Financial Position. As a result, changes in value associated with these investments do not impact the Company's Unaudited Interim Statement of Operations. In addition, fees earned by the Company related to the management of most separate account assets classified as Level 3 do not change due to changes in the fair value of these investments. Quantitative information about significant internally-priced Level 3 separate account assets is as follows:

Other Invested Assets - Separate account assets include \$6.1 million of investments in real estate fund as of September 30, 2012 that are classified as Level 3 and reported at fair value which is determined by the Company's equity in net assets of the entities. Fair value estimates of real estate are based on property appraisal reports prepared by independent real estate appraisers. Key inputs and assumptions to the appraisal process include rental income and expense amounts, related growth rates, discount rates and capitalization rates. Because of the subjective nature of inputs and the judgment involved in the appraisal process, real estate investments are typically included in the Level 3 Classification. Key unobservable inputs to real estate valuation include capitalization rates, which range from 5.5% to 9.5% (7.5% weighted average) and discount rates, which range from 7.0% to 11.5% (8.5% weighted average).

Transfers between Levels 1 and 2 - During the nine months ended September 30, 2012, \$2.7 million of equity securities, available for sale transferred from Level 1 to Level 2. The assets that transferred were mutual funds that were priced on a net asset value. This transfer was the result of an ongoing monitoring assessment of pricing inputs to ensure appropriateness of the level classification in the fair value hierarchy. There were no transfers between Levels 1 and 2 for the three and nine months ended September 30, 2011.

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Changes in Level 3 assets and liabilities - The following tables provide summaries of the changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods.

	Three Months Ended September 30, 2012				
	Fixed Maturities Available For Sale - Corporate Securities	Fixed Maturities Available For Sale - Asset- Backed Securities	Fixed Maturity Available For Sale - Commercial mortgage- backed securities	Trading Account Assets - Equity Securities	Equity Securities, Available for Sale
	(in thousands)				
Fair Value, beginning of period assets/(liabilities)	\$ 7,346	\$ 16,129	\$ 2,666	\$ 1,564	\$ 1,086
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(218)	—	—	—	(31)
Asset management fees and other income	—	—	—	(173)	—
Interest credited to policyholders' account balances	—	—	—	—	—
Included in other comprehensive income (loss)	122	46	(170)	—	9
Net investment income	7	77	—	—	—
Purchases	14	—	—	—	—
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	(785)	(2,119)	(2,496)	—	—
Transfers into Level 3 (2)	—	200	—	—	—
Transfers out of Level 3 (2)	—	—	—	—	—
Fair Value, end of period assets/(liabilities)	<u>\$ 6,486</u>	<u>\$ 14,333</u>	<u>\$ —</u>	<u>\$ 1,391</u>	<u>\$ 1,064</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	\$ —	\$ —	\$ —	\$ —	\$ —
Asset management fees and other income	\$ —	\$ —	\$ —	\$ (173)	\$ —
Interest credited to policyholders' account balances	\$ —	\$ —	\$ —	\$ —	\$ —

	Three Months Ended September 30, 2012		
	Reinsurance Recoverables	Separate Account Assets (1)	Future Policy Benefits
	(in thousands)		
Fair Value, beginning of period assets/(liabilities)	\$ 66,642	\$ 6,039	\$ (90,556)
Total gains (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	23,057	—	(31,375)
Asset management fees and other income	—	—	—
Interest credited to policyholders' account balances	—	47	—
Included in other comprehensive income	—	—	—
Net investment income	—	—	—
Purchases	7,687	—	—
Sales	—	—	—
Issuances	—	—	(9,726)
Settlements	—	—	—
Transfers into Level 3 (2)	—	—	—
Transfers out of Level 3 (2)	—	—	—
Fair Value, end of period assets/(liabilities)	<u>\$ 97,386</u>	<u>\$ 6,086</u>	<u>\$ (131,657)</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	\$ 23,505	\$ —	\$ (31,923)
Asset management fees and other income	\$ —	\$ —	\$ —
Interest credited to policyholders' account balances	\$ —	\$ 46	\$ —

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

	Nine Months Ended September 30, 2012				
	Fixed Maturities Available For Sale - Corporate Securities	Fixed Maturities Available For Sale - Asset- Backed Securities	Fixed Maturities Available For Sale - Commercial mortgage- backed securities	Trading Account Assets - Equity Securities	Equity Securities, Available for Sale
	(in thousands)				
Fair Value, beginning of period assets/(liabilities)	\$ 1,755	\$ 18,627	\$ —	\$ 1,569	\$ 1,144
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(718)	76	—	—	(63)
Asset management fees and other income	—	—	—	(178)	—
Interest credited to policyholders' account balances	—	—	—	—	—
Included in other comprehensive income (loss)	119	316	(127)	—	(17)
Net investment income	4	275	—	—	—
Purchases	4,636	—	—	—	—
Sales	(30)	—	—	—	—
Issuances	—	—	—	—	—
Settlements	(1,082)	(4,897)	(2,496)	—	—
Transfers into Level 3 (2)	4,826	200	2,623	—	—
Transfers out of Level 3 (2)	(3,024)	(264)	—	—	—
Fair Value, end of period assets/(liabilities)	\$ 6,486	\$ 14,333	\$ —	\$ 1,391	\$ 1,064

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	\$ —	\$ —	\$ —	\$ —	\$ —
Asset management fees and other income	\$ —	\$ —	\$ —	\$ (179)	\$ —
Interest credited to policyholders' account balances	\$ —	\$ —	\$ —	\$ —	\$ —

	Nine Months Ended September 30, 2012			
	Other Long-Term Investments	Reinsurance Recoverables	Separate Account Assets (1)	Future Policy Benefits
	(in thousands)			
Fair Value, beginning of period assets/(liabilities)	\$ 18	\$ 53,677	\$ 5,995	\$ (76,996)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	(18)	22,842	—	(27,839)
Asset management fees and other income	—	—	—	—
Interest credited to policyholders' account balances	—	—	91	—
Included in other comprehensive income	—	—	—	—
Net investment income	—	—	—	—
Purchases	—	20,867	—	—
Sales	—	—	—	—
Issuances	—	—	—	(26,822)
Settlements	—	—	—	—
Transfers into Level 3 (2)	—	—	—	—
Transfers out of Level 3 (2)	—	—	—	—
Fair Value, end of period assets/(liabilities)	\$ —	\$ 97,386	\$ 6,086	\$ (131,657)

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	\$ —	\$ 23,273	\$ —	\$ (28,616)
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholders' account balances	\$ —	\$ —	\$ 90	\$ —

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	Three Months Ended September 30, 2011				
	Fixed Maturities Available For Sale - Corporate Securities	Fixed Maturities Available For Sale - Asset-Backed Securities	Fixed Maturities Available For Sale - Commercial Mortgage-Backed Securities (in thousands)	Equity Securities Available for Sale	Trading Account Assets - Equity Securities
Fair Value, beginning of period assets/(liabilities)	\$ 5,680	\$ 21,670	\$ 5,019	\$ 1,762	\$ —
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	2	—	—	(74)	—
Asset management fees and other income	—	—	—	—	15
Interest credited to policyholders' account balances	—	—	—	—	—
Included in other comprehensive income (loss)	(45)	(93)	—	43	—
Net investment income	(4)	71	—	—	—
Purchases	—	—	—	1,000	—
Sales	—	—	—	—	—
Issuances	12	—	—	—	—
Settlements	(32)	(1,923)	—	—	—
Transfers into Level 3 (2)	—	—	—	—	—
Transfers out of Level 3 (2)	(3,872)	—	(5,019)	—	—
Other (4)	—	—	—	(1,530)	1,529
Fair Value, end of period assets/(liabilities)	<u>\$ 1,741</u>	<u>\$ 19,725</u>	<u>\$ —</u>	<u>\$ 1,201</u>	<u>\$ 1,544</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	\$ —	\$ —	\$ —	\$ (74)	\$ —
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ 15
Interest credited to policyholders' account balances	\$ —	\$ —	\$ —	\$ —	\$ —

	Three Months Ended September 30, 2011			
	Reinsurance Recoverables	Separate Account Assets (1)	Future Policy Benefits	Other Long-Term Investments
	(in thousands)			
Fair Value, beginning of period assets/(liabilities)	\$ 9,457	\$ 5,703	\$ 53,827	\$ 34
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	16,992	—	(128,818)	12
Interest credited to policyholders' account balances	—	123	—	—
Included in other comprehensive income (loss)	—	—	—	—
Net investment income	—	—	—	—
Purchases	321	—	—	—
Sales	—	—	—	—
Issuances	—	—	(6,236)	—
Settlements	—	—	—	—
Transfers into Level 3 (2)	—	—	—	—
Transfers out of Level 3 (2)	—	—	—	—
Fair Value, end of period assets/(liabilities)	<u>\$ 26,770</u>	<u>\$ 5,826</u>	<u>(81,227)</u>	<u>46</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	\$ 17,035	\$ —	\$ (128,701)	\$ 12
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholders' account balances	\$ —	\$ 123	\$ —	\$ —

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

	Nine Months Ended September 30, 2011				
	Fixed Maturities Available For Sale - Corporate Securities	Fixed Maturities Available For Sale - Asset- Backed Securities	Fixed Maturities, Available For Sale - Commercial Mortgage- Backed Securities (in thousands)	Equity Securities, Available for Sale	Other Long-Term Investments
Fair Value, beginning of period assets/(liabilities)	\$ 3,636	\$ 16,619	\$ —	\$ 255	\$ —
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	2	—	—	(454)	46
Asset management fees and other income	—	—	—	—	—
Included in other comprehensive income (loss)	(97)	8	—	394	—
Net investment income	62	191	—	—	—
Purchases	1,297	11,089	5,019	1,000	—
Sales	(99)	—	—	—	—
Issuances	60	—	—	—	—
Settlements	(148)	(4,217)	—	—	—
Transfers into Level 3 (2)	900	—	—	1,536	—
Transfers out of Level 3 (2)	(3,872)	(3,965)	(5,019)	—	—
Other (4)	—	—	—	(1,530)	—
Fair Value, end of period assets/(liabilities)	<u>\$ 1,741</u>	<u>\$ 19,725</u>	<u>\$ —</u>	<u>\$ 1,201</u>	<u>\$ 46</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	\$ —	\$ —	\$ —	\$ (454)	\$ 42
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ —
Interest credited to policyholders' account balances	\$ —	\$ —	\$ —	\$ —	\$ —

	Nine Months Ended September 30, 2011				
	Reinsurance Recoverables	Other Assets	Separate Account Assets (1) (in thousands)	Future Policy Benefits	Trading Account Assets - Equity Securities
Fair Value, beginning of period assets/(liabilities)	\$ 11,108	\$ 5,888	5,393	\$ 41,316	\$ —
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	14,567	—	—	(105,847)	—
Asset management fees and other income	—	—	—	—	15
Interest credited to policyholders' account balances	—	—	433	—	—
Included in other comprehensive income	—	(13)	—	—	—
Net investment income	—	—	—	—	—
Purchases	1,095	104	—	—	—
Sales	—	—	—	—	—
Issuances	—	—	—	(16,696)	—
Settlements	—	—	—	—	—
Transfers into Level 3 (2)	—	—	—	—	—
Transfers out of Level 3 (2)	—	(5,979)	—	—	—
Other (4)	—	—	—	—	1,529
Fair Value, end of period assets/(liabilities)	<u>\$ 26,770</u>	<u>\$ —</u>	<u>\$ 5,826</u>	<u>(81,227)</u>	<u>1,544</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	\$ 14,696	\$ —	\$ —	\$ (105,419)	\$ —
Asset management fees and other income	\$ —	\$ —	\$ —	\$ —	\$ 15
Interest credited to policyholders' account balances	\$ —	\$ —	\$ 433	\$ —	\$ —

- (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 Unaudited Interim Statement 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Transfers - Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that cannot be validated) for which information from third party pricing services (that can be validated) was previously utilized. Transfers out of Level 3 are generally 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 is able to validate. Other significant transfers into and/or out of Level 3 are discussed below:

For the nine months ended September 30, 2011 the majority of the Equity Securities Available for Sale transfers into Level 3 were due to the determination that the pricing inputs for perpetual preferred stocks provided by third party pricing services were primarily based on indicative broker quotes which could not always be verified against directly observable market information. Perpetual preferred stocks were included in Equity Securities Available for Sale and subsequently transferred to Trading Account Assets.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. However, in some cases, as described below, the carrying amount equals or approximates fair value.

		September 30, 2012				December 31, 2011	
		Fair Value			Carrying Amount (1)	Fair Value	Carrying Amount
Level 1	Level 2	Level 3 (in thousands)	Total	Total	Total	Total	
Assets:							
Commercial mortgage and other loans	\$ —	\$ —	\$ 244,311	\$ 244,311	\$ 227,924	\$ 247,865	\$ 230,201
Policy loans	—	—	250,324	250,324	171,661	235,706	177,162
Cash	2,721	—	—	2,721	2,721	2,342	2,342
Accrued investment income	—	14,856	—	14,856	14,856	17,275	17,275
Other assets	—	26,038	—	26,038	25,874	19,763	19,486
Total assets	\$2,721	\$ 40,894	\$494,635	\$538,250	\$443,036	\$522,951	\$446,466
Liabilities:							
Policyholders' Account Balances - Investment Contracts	—	115,764	14,932	130,696	130,869	113,010	113,938
Cash collateral for loaned securities	—	4,156	—	4,156	4,156	17,012	17,012
Securities sold under agreement to repurchase	—	—	—	—	—	3,216	3,216
Short-term debt	—	27,040	—	27,040	27,010	26,027	26,000
Long-term debt	—	46,147	—	46,147	44,000	44,266	44,000
Other liabilities	—	37,042	—	37,042	37,042	30,728	30,728
Total liabilities	\$ —	\$230,149	\$ 14,932	\$245,081	\$243,077	\$234,259	\$234,894

(1) Carrying values presented herein differ from those in the Company's Unaudited Interim Statement of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments. Financial statement captions excluded from the above table are not considered financial instruments.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Commercial Mortgage and Other Loans

The fair value of most commercial mortgage loans is based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate plus an appropriate credit spread for similar quality loans. The quality ratings for these loans, a primary determinant of the credit spreads and a significant component of the pricing process, are based on an internally-developed methodology.

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.

Cash, Accrued Investment Income and Other Assets

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: cash, accrued investment income, and other assets that meet the definition of financial instruments, including receivables, such as unsettled trades and accounts receivable. Also included in other assets is an affiliated note whose fair value is determined in the same manner as the underlying debt described below under “Short-Term and Long-Term Debt”.

Policyholders’ Account Balances - Investment Contracts

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 financial strength ratings, and hence reflect the Company’s own non-performance 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.

Cash Collateral for Loaned Securities

This represents the collateral received or paid in connection with loaning or borrowing securities. For these transactions, the carrying value of the related asset/liability approximates fair value as they equal the amount of cash collateral received/paid.

Securities Sold under Agreements to Repurchase

The Company receives collateral for selling securities under agreements to repurchase or pledges collateral under agreements to resell. Repurchase and resale agreements are also generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value.

Short-Term and Long-Term Debt

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.

Other Liabilities

Other liabilities are primarily payables, such as drafts, escrow deposits and accrued expense payables. Due to the short term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

5. 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

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, 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 accounted for as embedded derivatives. The Company has reinsurance agreements to transfer the risk related to certain of these embedded derivatives to an affiliate, 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 fair value of the living benefit feature embedded derivatives included in "Future policy benefits" was a liability of \$132 million and \$77 million as of September 30, 2012 and December 31, 2011, respectively. 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 \$97 million and \$54 million as of September 30, 2012 and December 31, 2011, respectively.

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.

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Notes to Unaudited Interim 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	September 30, 2012			December 31, 2011		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
(in thousands)						
Qualifying Hedges						
Currency/Interest Rate						
Currency Swaps	\$22,332	\$ 390	\$ (860)	\$ 14,972	\$ 221	\$ (846)
Total Qualifying Hedges	\$22,332	\$ 390	\$ (860)	\$ 14,972	\$ 221	\$ (846)
Non-Qualifying Hedges						
Interest						
Interest Rate Swaps	\$57,200	\$ 9,746	\$ —	\$ 57,200	\$8,442	\$ —
Credit						
Credit Default Swaps	9,275	621	(383)	17,000	118	(339)
Currency/Interest Rate						
Currency Swaps	9,115	—	(860)	16,615	—	(909)
Equity						
Equity Options	3	135	—	—	—	—
Total Non-Qualifying Hedges	75,593	10,502	(1,243)	90,815	8,560	(1,248)
Total Derivatives (1)	\$97,925	\$10,892	\$ (2,103)	\$105,787	\$8,781	\$ (2,094)

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a liability of \$134 million and \$80 million as of September 30, 2012 and December 31, 2011, respectively, 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 tables provide 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:

	Three Months Ended September 30, 2012			Accumulated
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Other Comprehensive Income(1)
	(in thousands)			
Qualifying Hedges				
Cash flow hedges				
Currency/Interest Rate	\$ —	\$ 11	\$ —	\$ (465)
Total qualifying hedges	—	11	—	(465)
Non-qualifying hedges				
Interest Rate	782	—	—	—
Currency	2	—	—	—
Currency/Interest Rate	(282)	—	(5)	—
Credit	2	—	—	—
Equity	—	—	—	—
Embedded Derivatives	(13,964)	—	—	—
Total non-qualifying hedges	(13,460)	—	(5)	—
Total	\$ (13,460)	\$ 11	\$ (5)	\$ (465)

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

	Nine Months Ended September 30, 2012			Accumulated Other Comprehensive Income(1)
	Realized Investment Gains/(Losses)	Net Investment Income (in thousands)	Other Income	
Qualifying Hedges				
Cash flow hedges				
Currency/Interest Rate	\$ —	\$ 10	\$ 14	\$ 144
Total qualifying hedges	—	10	14	144
Non-qualifying hedges				
Interest Rate	2,912	—	—	—
Currency	2	—	—	—
Currency/Interest Rate	(171)	—	(3)	—
Credit	(220)	—	—	—
Equity	—	—	—	—
Embedded Derivatives	(11,511)	—	—	—
Total non-qualifying hedges	(8,988)	—	(3)	—
Total	\$ (8,988)	\$ 10	\$ 11	\$ 144

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

	Three Months Ended September 30, 2011			Accumulated Other Comprehensive Income(1)
	Realized Investment Gains/(Losses)	Net Investment Income (in thousands)	Other Income	
Qualifying Hedges				
Cash flow hedges				
Currency/Interest Rate	\$ —	\$ (46)	\$ 19	\$ 346
Total qualifying hedges	—	(46)	19	346
Non-qualifying hedges				
Interest Rate	7,321	—	—	—
Currency	—	—	—	—
Currency/Interest Rate	718	—	—	—
Credit	556	—	—	—
Equity	—	—	—	—
Embedded Derivatives	(112,391)	—	—	—
Total non-qualifying hedges	(103,796)	—	—	—
Total	\$ (103,796)	\$ (46)	\$ 19	\$ 346

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

	Nine Months Ended September 30, 2011			Accumulated Other Comprehensive Income(1)
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	
	(in thousands)			
Qualifying Hedges				
Cash flow hedges				
Currency/Interest Rate	\$ —	\$ (30)	\$ (12)	\$ 342
Total qualifying hedges	—	(30)	(12)	342
Non-qualifying hedges				
Interest Rate	8,565	—	—	—
Currency	—	—	—	—
Currency/Interest Rate	283	—	—	—
Credit	222	—	—	—
Equity	—	—	—	—
Embedded Derivatives	(91,496)	—	—	—
Total non-qualifying hedges	(82,426)	—	—	—
Total	\$ (82,426)	\$ (30)	\$ (12)	\$ 342

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

For the period ending September 30, 2012, 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:

	<u>(in thousands)</u>
Balance, December 31, 2011	\$ (630)
Net deferred gains (losses) on cash flow hedges from January 1 to September 30, 2012	120
Amount reclassified into current period earnings	24
Balance, September 30, 2012	<u>\$ (486)</u>

As of September 30, 2012, 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 14 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 Unaudited Interim Statements of Equity.

Credit Derivatives Written

The Company wrote credit derivatives under which the Company was 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, was \$0 million and \$10 million notional of credit default swap ("CDS") selling protection with an associated fair value of \$0 million, at September 30, 2012 and December 31, 2011, respectively. These credit derivatives generally had maturities of less than 5 years and consisted of corporate securities within the finance industry. At December 31, 2011, the underlying credits had an NAIC designation rating of 1.

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 \$7 million at both September 30, 2012 and December 31, 2011. The fair value of the embedded derivatives included in "Fixed maturities, available-for-sale" was a liability of \$2 million and \$3 million at September 30, 2012 and December 31, 2011, respectively.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of September 30, 2012 and December 31, 2011, the Company had \$9 million and \$7 million of outstanding notional amounts, respectively, reported at fair value as a liability of less than \$1 million for both periods.

Counterparty 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 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 or ("PGF"), related to its OTC derivative transactions. PGF 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, see Note 8.

Under fair value measurements, the Company incorporates the market's perception of its own and the counterparty's non-performance risk in determining the fair value of the portion of its OTC derivative assets and liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company's own credit spread a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company's counterparty's credit spread is applied to OTC derivative net asset positions.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

6. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments

The Company has made commitments to fund \$18 million of commercial loans as of September 30, 2012. The Company also made commitments to purchase or fund investments, mostly private fixed maturities, of \$3.4 million as of September 30, 2012.

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.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed, including matters discussed below. As of September 30, 2012, the aggregate range of reasonably possible losses in excess of accruals established is not currently estimable. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

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 June 2012, the Company filed a motion to dismiss the complaint.

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 April 2012, the Company filed a motion to dismiss the complaint. In September 2012, the complaint was withdrawn without prejudice.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Company to adopt and implement additional procedures comparing its records to the SSMDf to identify unclaimed death benefits and prescribes 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 Financial Services ("NYDFS") has requested that 172 life insurers (including the Company) provide data to the NYDFS 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.

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.

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.

7. REINSURANCE

The Company participates in reinsurance with its affiliates Prudential Insurance, Prudential Arizona Reinsurance Captive Company, or "PARCC", Pruco Re, Prudential Arizona Reinsurance Universal Company or "PAR U", and Prudential Arizona Reinsurance Term Company, or "PAR TERM", through various plans of reinsurance, primarily on a yearly renewable term and coinsurance basis. This reinsurance provides risk diversification, additional capacity for future growth and limits the maximum net loss potential. For coinsurance agreements, all significant risks are ceded to the reinsurer, including mortality, investment, and lapse risk. For yearly renewable term agreements, mortality risk is the primary risk ceded to the reinsurer. 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 8.

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 8.

Effective April 1, 2008, the Company entered into an agreement to reinsure certain variable Corporate Owned Life Insurance "COLI" policies with Pruco Life.

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Reinsurance amounts included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2012 and 2011 are below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Premiums	\$ 42,889	\$ 41,610	\$ 129,700	\$ 125,004
Reinsurance ceded	(39,559)	(37,936)	(119,619)	(114,394)
Premiums	<u>\$ 3,330</u>	<u>\$ 3,674</u>	<u>\$ 10,081</u>	<u>\$ 10,610</u>
Direct policy charges and fees	\$ 59,701	\$ 40,974	\$ 151,062	\$ 120,092
Reinsurance ceded	(25,589)	(17,589)	(44,984)	(35,705)
Policy charges and fees	<u>\$ 34,112</u>	<u>\$ 23,385</u>	<u>\$ 106,077</u>	<u>\$ 84,387</u>
Policyholders' benefits ceded	<u>\$ 28,296</u>	<u>\$ 25,304</u>	<u>\$ 82,567</u>	<u>\$ 77,701</u>
Realized capital gains (losses) net, associated with derivatives	<u>\$ 22,154</u>	<u>\$ 16,964</u>	<u>\$ 20,877</u>	<u>\$ 14,579</u>

Realized investment gains and losses include the reinsurance of certain of the Company's 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 to Pruco Re. The reinsurance agreements contain derivatives and have been accounted for in the same manner as an embedded derivative. See Note 5 for additional information related to the accounting for embedded derivatives.

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

Reinsurance recoverables included in the Company's Unaudited Interim Statements of Financial Position at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Domestic life insurance-affiliated	\$ 734,845	\$ 467,687
Domestic individual annuities-affiliated	97,417	53,696
Domestic life insurance-unaffiliated	2,208	1,379
	<u>\$ 834,470</u>	<u>\$ 522,762</u>

Substantially all reinsurance contracts are with affiliates as of September 30, 2012 and December 31, 2011. These contracts are described further in Note 8.

The gross and net amounts of life insurance face amount in force as of September 30, 2012 and 2011 were as follows:

	2012	2011
	(in thousands)	
Gross life insurance face amount in force	\$ 100,611,102	\$ 97,305,225
Reinsurance ceded	(90,287,029)	(87,543,227)
Net life insurance face amount in force	<u>\$ 10,324,073</u>	<u>\$ 9,761,998</u>

8. 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 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

General and administrative expenses 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 third quarter of 2012 and 2011, and less than \$1 million for the nine months ended September 30, 2012 and 2011. The expense charged to the Company for the deferred compensation program was less than \$1 million for the third quarter of 2012 and 2011, and less than \$1 million for the nine months ended September 30, 2012 and 2011.

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 less than \$1 million for the third quarter of 2012 and 2011, and \$1 million for the nine months ended September 30, 2012 and 2011.

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 less than \$1 million for the third quarter of 2012 and 2011, and \$1 million for the nine months ended September 30, 2012 and 2011.

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 two 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 contracts was \$1,163 million and \$1,068 million as of September 30, 2012 and December 31, 2011, respectively. Fees related to these COLI policies were \$4 million for the third quarter of 2012 and 2011, and \$12 million for the nine months ended September 30, 2012 and 2011.

Pruco Life

Effective April 1, 2008, the Company entered into an agreement to reinsure certain variable COLI policies with Pruco Life. The Company is not relieved of its primary obligation to the policyholder as a result of this agreement.

Reinsurance amounts included in the Company's Unaudited Interim Statements of Financial Position at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Reinsurance recoverables	\$ 4,995	\$ 6,716
Other liabilities	0	2,190

Reinsurance amounts included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) in the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Gross policy charges and fee income	\$(5,776)	\$(5,446)	\$(5,769)	\$(5,447)
Policyholders' benefits	(3,799)	(3,472)	(928)	(237)

PARCC

The Company reinsures 90% of the risks under its term life insurance policies, written prior to January 1, 2010, excluding My Term and Return of Premium Term Life, or ("ROP Term Life"), 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.

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Reinsurance amounts included in the Company's Unaudited Interim Statements of Financial Position at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Reinsurance recoverables	\$ 431,879	\$ 403,222
Deferred policy acquisition costs	(92,822)	(96,712)
Other liabilities (reinsurance payables)	9,492	9,322

Reinsurance amounts included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) in the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Premiums	\$(88,568)	\$(28,423)	\$(94,579)	\$(30,710)
Policyholders' benefits	27,334	19,537	82,874	78,607
Reinsurance expense allowances, net of capitalization and amortization	5,970	6,336	18,375	19,327

PAR TERM

The Company reinsures 95% of the risks under its term life insurance policies issued on or after January 1, 2010, excluding 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 amounts included in the Company's Unaudited Interim Statements of Financial Position at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Reinsurance recoverables	\$ 43,841	\$ 27,704
Deferred policy acquisition costs	(46,313)	(31,443)
Other liabilities (reinsurance payables)	3,531	2,515

Reinsurance amounts included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) in the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Premiums	(10,359)	(6,540)	(28,787)	(17,758)
Policyholders' benefits	7,207	4,148	19,666	12,046
Reinsurance expense allowances, net of capitalization and amortization	1,969	1,331	5,455	3,110

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, 2012 the Company recaptured a portion of this agreement related to its universal life policies and now reinsures these risks with PAR U as discussed below.

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Reinsurance amounts included in the Company's Unaudited Interim Statements of Financial Position at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Reinsurance recoverables	\$ 24,604	\$ 30,045
Other liabilities (reinsurance payables)	2,028	3,389

Reinsurance amounts included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) in the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Premiums	\$ (776)	\$ (687)	\$ (2,264)	\$ (2,057)
Gross policy charges and fee income	(1,468)	(9,857)	(20,871)	(27,974)
Policyholders' benefits	1,290	17,188	18,771	33,900
Reinsurance expense allowances, net of capitalization and amortization	(3,058)	(2,363)	(8,474)	(7,295)

PAR U

Effective July 1, 2012, the Company, entered into an automatic coinsurance agreement with PAR U, an affiliated company, to reinsure an amount equal to 95% of all the risks associated with its universal protector and universal plus policies. 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 \$359 million less a ceding allowance of \$194 million, was paid to PAR U. Consideration for the amount due to PAR U was transferred on September 28, 2012 and 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 and commercial mortgage securities from an asset portfolio within the Company. The affiliated asset transfers which occurred in settlement of the initial reinsurance premium are described below under "Affiliated Asset Transfers."

Reinsurance amounts included in the Company's Unaudited Interim Statements of Financial Position at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Reinsurance recoverables	\$ 229,526	\$ 0
Policy loans	(13,134)	0
Deferred policy acquisition costs	(1,790)	0
Other liabilities (reinsurance payables) (1)	40,967	0

(1) Includes the unamortized portion of the deferred gain arising from the coinsurance agreement between the Company and PAR U of \$22 million as of September 30, 2012.

Reinsurance amounts included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) in the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Policy charges and fee income	\$ (15,729)	\$ 0	\$(15,729)	\$ 0
Net investment income	(76)	0	(76)	0
Other income	1,367	0	1,367	0
Interest credited to policyholders' account balance	1,869	0	1,869	0
Policyholders' benefits	5,357	0	5,357	0
Reinsurance expense allowances, net of capitalization and amortization	3,320	0	3,320	0

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

Pruco Re

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 Re under these agreements which are included in “Realized investment (losses) gains, net” on the Unaudited Interim Statements of Operations and Comprehensive Income (Loss) for the dates indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Pruco Reinsurance				
Effective October 1, 2011				
Highest Daily Lifetime Income (“HDI”)	\$ 3,158	\$ —	\$ 7,371	\$ —
Spousal Highest Daily Lifetime Income (“SHDI”)	982	—	2,267	—
Highest Daily Lifetime 6 Plus (“HD6+”)	2,936	—	8,694	—
Spousal Highest Daily Lifetime 6 Plus (“SHD6+”)	1,168	—	3,459	—
Effective Since 2006				
Spousal Lifetime Five (“SLT5”)	42	42	126	132
Effective Since 2005				
Lifetime Five (“LT5”)	303	305	914	950
Total Pruco Reinsurance	\$ 8,589	\$ 347	\$22,831	\$1,082

Effective October 1, 2011, the Company ceded the HDI, SHDI, HD6+ and SHD6+ benefits to Pruco Re, as noted in the table above. The Company paid an initial premium of \$62 million and established a reinsurance recoverable of \$31 million resulting in an initial ceding loss of \$32 million, recognized in “Realized investment gains (losses), net” in 2011.

The Company’s reinsurance recoverables related to the above product reinsurance agreements were \$97 million and \$54 million as of September 30, 2012 and December 31, 2011, respectively. Realized gains (losses) were \$22 million and \$17 million in the third quarter of 2012 and 2011, respectively; and \$21 million and \$15 million in the first nine months of 2012 and 2011, respectively. Changes in realized gains (losses) for the third quarter of 2012 and 2011 and the first nine months of 2012 and 2011 were primarily due to changes in market conditions in each respective period. The underlying assets are reflected in “Reinsurance recoverables” in the Company’s Unaudited Interim Statements of Financial Position.

Deferred Policy Acquisition Costs Ceded to Term Reinsurance Affiliates

In 2009 when implementing a revision to the reinsurance treaties with PARCC and PAR TERM modifications were made affecting premiums. The related impact on the deferral of ceded reinsurance expense allowances did not reflect this change resulting in the understatement of deferred reinsurance expense allowances. During the second quarter 2011, the Company recorded the correction, charging \$1 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

The Company participates in a revenue sharing agreement with AST Investment Services, Inc, formerly known as American Skandia Investment Services, Inc, whereby 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 \$5 million and \$3 million for the three months ended September 30, 2012 and 2011, respectively, and \$14 million and \$9 million for the nine months ended September 30, 2012 and 2011, respectively. These revenues are recorded as “Asset administration fees” in the Unaudited Interim 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 \$2 million and \$2 million for the three months ended September 30, 2012 and 2011, respectively, and \$5 million and \$5 million for the nine months ended September 30, 2012 and 2011, respectively. These revenues are recorded as “Asset administration fees” in the Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

Affiliated Asset Transfers

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

In December 2011, the Company purchased commercial loans from its parent company, Pruco Life. These securities had an amortized cost of \$10 million and a fair market value of \$11 million. The difference between amortized cost and fair market value of these transfers was accounted for as a decrease of \$1 million to additional paid-in capital, net of taxes in 2011.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements - (Continued)

In December 2011, the Company sold fixed maturity securities to its parent company, Pruco Life. These securities had an amortized cost of \$13 million and a fair market value of \$14 million. The difference between amortized cost and fair market of these transfers was accounted for as an increase of \$1 million to additional paid-in capital, net of taxes in 2011.

In September 2012, the Company transferred fixed maturity securities and commercial mortgage loans to PAR U, an affiliated company, as consideration for the coinsurance agreement with this affiliate. These investments had an amortized cost of \$142 million and a fair market value of \$156 million. The net difference between amortized cost and the fair value was \$14 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 \$5 million reflecting changes in market values of the consideration from the effective date through settlement date.

In September 2012, the Company sold fixed maturity securities to its ultimate parent company, Prudential Financial, Inc. These securities had an amortized cost of \$41 million and a fair market value of \$46 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 2012.

Debt Agreements

The Company is authorized to borrow funds up to \$200 million from affiliates to meet its capital and other funding needs. The Company had \$27 million in short term debt as of September 30, 2012, including \$16 million with Prudential Funding, LLC and \$11 million with Prudential Financial, and \$26 million in short-term debt as of December 31, 2011. Total interest expense on this short-term affiliated debt to the Company was \$0.1 million and \$0 million for the three and nine months ended September 30, 2012 and 2011, respectively.

On December 16, 2011 the Company entered into a series of four \$11 million borrowings with Prudential Financial, totaling \$44 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 interest expense on these borrowings was \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2012, respectively.

Contributed Capital

In June 2011, the Company received a capital contribution from Pruco Life in the amount of \$21 million to fund acquisition costs for sales of variable annuities.

In December 2011, the Company received a capital contribution from Pruco Life in the amount of \$17 million to fund acquisition costs for sales of variable annuities.

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.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A,") addresses the financial condition of Pruco Life Insurance Company, or the "Company," as of September 30, 2012, compared with December 31, 2011, and its consolidated results of operations for the three and nine months ended September 30, 2012 and 2011. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, the statements under "Forward-Looking Statements" and the audited Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

The Company sells variable and fixed annuities, universal life insurance, variable life insurance and term life insurance primarily through third party distributors in New Jersey and New York. 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.

Products

Individual Annuities

The Company offers a wide array of annuities, in NJ and NY, United States, including variable annuities that are registered with the United States Securities and Exchange Commission (the "SEC"), which may also include (1) fixed interest rate allocation options, subject to a market value adjustment, and registered with the SEC, and (2) fixed rate allocation options not subject to a market value adjustment and not registered with the SEC. The Company also offers fixed annuitization options during the payout phase of its variable annuities. Effective September 2012 the Company announced the suspension of additional customer deposits for variable annuities with certain older optional living benefit riders.

The Company offers variable annuities that provide our customers with tax-deferred asset accumulation together with a base death benefit and a suite of optional guaranteed death and living benefits. The benefit features contractually guarantee the contractholder a return of no less than (1) total deposits made to the contract less any partial withdrawals ("return of net deposits"), (2) total deposits made to the contract less any partial withdrawals plus a minimum return ("minimum return"), and/or (3) the highest contract value on a specified date minus any withdrawals ("contract value"). These guarantees may include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable during specified periods. Our latest optional living benefits guarantee, among other features, the ability to make withdrawals based on the highest daily contract value plus a minimum return, credited for a period of time. This highest daily guaranteed contract value is a notional amount that forms the basis for determination of periodic withdrawals for the life of the contractholder, and cannot be accessed as a lump-sum surrender value.

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

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility, timing of annuitization and withdrawals, contract lapses and contractholder mortality. The return we realize from our variable annuity contracts will vary based on the extent of the differences between our actual experience and the assumptions used in the original pricing of these products. As part of our risk management strategy we hedge or limit our exposure to certain of these risks primarily through a combination of product design elements, such as an asset transfer feature, externally purchased hedging instruments and affiliated reinsurance arrangements with Pruco Re. Our returns can also vary by contract based on our risk management strategy, including the impact of any capital markets movements that we may hedge in Pruco Re, the impact on that portion of our variable annuity contracts that benefit from the asset transfer feature and the impact of risks we have deemed suitable to retain and the impact of risks that are not able to be hedged.

As of September 30, 2012 approximately \$5.2 billion or 89% of total variable annuity account values contain a living benefit feature, compared to approximately \$3.7 billion or 86% as of December 31, 2011. As of September 30, 2012 approximately \$4.9 billion or 94% of variable annuity account values with living benefit features included an asset transfer feature in the product design, compared to approximately \$3.4 billion or 91% as of December 31, 2011. The increase in account values with living benefits and the asset transfer feature reflects the impact of new business sales. 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

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account. The asset transfer feature associated with currently-sold benefit features transfers assets between certain variable investments selected by the annuity contractholder and a designated bond portfolio within the separate account. The transfers occur at the contractholder level. The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including the impact of investment performance on the contractholders' total account value. In general, negative investment performance may result in transfers to either a fixed rate account in the general account or a bond portfolio within the separate account, and positive investment performance may result in transfers to contractholder-selected variable investments. Overall, the asset transfer feature helps to mitigate our exposure to equity market risk and market volatility. Beginning in 2009, our offerings of optional living benefit features associated with currently sold variable annuity products all include an asset transfer feature, and in 2009 we discontinued any new sales of optional living benefit features without an asset transfer feature. Other product design elements we utilize for certain products to manage these risks include asset allocation restrictions and minimum issuance age requirements.

As mentioned above, in addition to our asset transfer feature, we also manage certain risks associated with our variable annuity products through hedging programs and affiliated reinsurance agreements. Primarily in the reinsurance affiliate, derivatives are purchased that replicate the net change in a hedging target, discussed further below. The hedging program uses a range of exchange-traded and over the counter equity and interest rate derivatives. The instruments include, but are not limited to: interest rate swaps, swaptions, floors and caps as well as equity options, total return swaps and equity futures to hedge certain capital market risks present in the hedge target. In addition to mitigating risk and income statement volatility, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path, recognizing that, under the terms of the contracts, payment of such claims are not expected to begin until some point in the future.

Under U.S. GAAP the liability for the optional living benefit features is accounted for as an embedded derivative and recorded at fair value. The fair value is calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the feature using option pricing techniques. See Note 4 to the Unaudited Interim Financial Statements for additional information regarding the methodology and assumptions used in calculating the fair value under U.S. GAAP.

As noted above, the hedge program, primarily in the reinsurance affiliate, utilizes a hedge target that is grounded in a U.S. GAAP/capital markets valuation framework, with three notable modifications.

- The impact of the market's perception of non-performance risk ("NPR") is excluded to maximize protection against the entire projected claim irrespective of the possibility of our own default.
- A credit spread is added to the risk-free rate of return assumption used under U.S. GAAP to estimate future growth of bond investments in the customer separate account funds to better replicate the projected returns within those funds.
- The equity volatility assumption is adjusted to remove certain risk margins required under U.S. GAAP valuation which are used in the projection of customer account values, as we believe the impact driven by these margins can be temporary and does not reflect the true economic value.

The hedging strategy also includes a program managed at the Prudential Financial parent company level that more broadly addresses equity market exposure of the overall statutory capital of Prudential Financial as a whole, under stress scenarios. The program focuses on tail risk in order to protect statutory capital in a cost-effective manner under stress scenarios. 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.

Term Life Insurance

The Company offers a variety of term life insurance products which represent 72% of our net individual life insurance in force at September 30, 2012, that provide coverage for a specified time period. Most term products include a conversion feature that allows the policyholder to convert the policy into permanent life insurance coverage. The Company also offers term life insurance that provides for a return of premium if the insured is alive at the end of the level premium period. There continues to be significant demand for term life insurance protection.

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

Variable Life Insurance

The Company offers a number of individual variable life insurance products which represent 21% of our net individual life insurance in force at September 30, 2012. Variable products provide a return linked to an underlying investment portfolio selected by the policyholder while providing the policyholder with the flexibility to change both the death benefit and premium payments. The policyholder generally has the option of investing premiums in a fixed rate option that is part of our general account and/or investing in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed rate option will accrue interest at rates we determine that vary periodically based on our portfolio rate, subject to certain contractual minimums. In the separate accounts, the policyholder bears the fund performance risk. Each product provides for the deduction of charges and expenses from the customer's contract fund. The Company also offers a variable product that has the same basic features as our variable universal life product but also allows for a more flexible guarantee against lapse where policyholders can select the guarantee period. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance.

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A significant portion of the Company's insurance profits are associated with our large in force block of variable policies. Profit patterns on these policies are not level and as the policies age, insureds generally begin paying reduced policy charges. This reduction in policy charges, coupled with net policy count and insurance in force runoff over time, reduces our expected future profits from this product line. Asset management fees and mortality and expense fees are a key component of variable life product profitability and vary based on the average daily net asset value. Due to policyholder options under some of the variable life contracts, lapses driven by periods of unfavorable equity market performance may occur on a quarter lag with the market risk during this period being borne by the Company.

Universal Life Insurance

The Company offers universal life insurance products which represent 7% of our net individual life insurance in force at September 30, 2012. Universal life insurance products may feature a fixed crediting rate that we determine and that may vary periodically based on portfolio returns, subject to certain minimums, flexible premiums and a choice of guarantees against lapse. They may feature an equity index crediting rate subject to certain minimum and maximum rates. Universal life policies provide for the deduction of charges and expenses from the policyholders' contract fund.

The Company's profits from universal life insurance are impacted by mortality and expense margins, interest spread on policyholder funds as well as the net interest spread on capital management activities related to a portion of the statutory reserves associated with these products.

Across our life insurance products we offer a living benefits option that allows the policy owner to receive a portion of the life insurance benefit if the insured is diagnosed with a terminal illness, or permanently confined to a nursing home, in advance of death of the insured, to use as needed. The remaining death benefit will be paid to the beneficiary upon the death of the insured. We also have a variety of settlement and payment options for the settlement of life insurance claims in addition to lump sum checks, including placing benefits in retained asset accounts, which earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries.

Significant Accounting Policies

For information on the Company's significant accounting policies, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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 Financial Statements could change significantly.

Management believes the accounting policies relating to the following areas 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;
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments;
- Policyholder liabilities;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

In the first quarter of 2012, we revised the treatment of the results of the living benefits hedging program in our best estimate of total gross profits used to calculate the amortization of deferred policy acquisition costs ("DAC") and deferred sales inducements ("DSI") associated with certain of our variable annuity contracts. In 2011, we included the difference between the change in the fair value of the hedge positions and the change in the fair value of the hedge target liability, primarily in the reinsurance affiliate, in our best estimate of gross profits used to determine amortization rates only to the extent this net amount was determined by management to be other-than-temporary. Beginning with the first quarter of 2012, we are including these impacts in our best estimate of total gross profits used for determining amortization rates each quarter without regard to the permanence of the changes.

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

As of September 30, 2012, our variable annuities business utilizes distinct rates of return for equity and fixed income investments. Assumptions for this business reflect an 8.0% long-term equity expected rate of return and a near-term mean reversion equity rate of return of 8.5%. As of September 30, 2012, all contract groups within our variable annuities business utilized these rates, as the near-term mean reversion equity rate of return was less than our 13% maximum. Fixed income expected rates of return include a risk free return plus a credit spread and consider the duration and credit profile of the respective bond and money market funds. Fixed income returns reflect a grading from current rates up to long term rates over a ten year period. The weighted average fixed income expected rate of return after the ten year grading period is 5.5%.

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As of September 30, 2012, our variable life insurance business utilizes blended rates of return, which are based on a long-term expected distribution of funds between equity and fixed income funds. Assumptions for this business reflect a long-term blended expected rate of return of 5.8%, which includes an 8.1% long-term equity expected rate of return and a 4.6% fixed income expected rate of return. The 4.6% fixed income expected rate of return is a levelized rate, which blends current rates and long-term expected returns. Assumptions also reflect a near-term mean reversion blended rate of return of 4.2%. As of September 30, 2012, all contract groups within our variable life insurance business utilize these rates, as the near-term blended expected equity rate of return was less than our 13% maximum.

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

Additional information regarding the critical accounting estimates listed above may also be found in our Annual Report on Form 10-K for the year ended December 31, 2011, under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Accounting Policies & Pronouncements - Application of Critical Accounting Estimates."

Changes in Financial Position

September 30, 2012 versus December 31, 2011

Total assets increased \$2,030 million, from \$8,828 million at December 31, 2011 to \$10,858 million at September 30, 2012.

Separate account assets increased \$1,783 million, from \$6,258 million at December 31, 2011 to \$8,041 million at September 30, 2012, primarily driven by positive individual annuity net flows from new business sales and market appreciation.

Reinsurance recoverables increased by \$311 million from \$523 million at December 31, 2011, to \$834 million at September 30, 2012. The increase is primarily driven by the ceding of universal life policyholders' account balances as part of the new coinsurance agreement with PAR U and higher term reserves ceded under existing affiliated reinsurance agreements due to business growth. Also contributing to the increase was an increase in the mark-to-market of the 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 and tightening of our NPR spreads. See Note 8 to the Unaudited Interim Financial Statements for additional information regarding affiliated reinsurance transactions.

Deferred policy acquisition costs increased by \$29 million from \$263 million at December 31, 2011, to \$292 million at September 30, 2012. The increase is primarily driven by the capitalization of commissions related to variable annuity sales.

Partially offsetting the above increases was a decrease in total invested assets of \$122 million from \$1,660 million at December 31, 2011 to \$1,538 million at September 31, 2012 due to assets transferred as consideration for the new coinsurance agreement with PAR U (See Note 8 to the Unaudited Interim Financial Statements for additional information), partially by growth in investments from continued universal life sales and in force growth.

Total liabilities increased by \$1,962 million, from \$8,266 million at December 31, 2011 to \$10,228 million at September 30, 2012, primarily due to an increase in separate account liabilities of \$1,783 million, offsetting the increase in separate account assets described above.

Future policy benefits and other policyholder liabilities increased \$128 million, from \$692 million at December 31, 2011 to \$820 million at September 30, 2012, primarily driven by an increase in reserves supporting term business arising from business growth. Also contributing to the increase was an increase in the liability for living benefit embedded derivatives, as described above.

Policyholders' account balances increased \$41 million, from \$1,133 million at December 31, 2011 to \$1,174 million at September 30, 2012, primarily driven by an increase in variable life fixed fund balances including the impact of a large deposit and continued universal life business growth.

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1. Results of Operations

Three Months ended September 30, 2012 versus September 30, 2011

	Three Months Ended September 30,	
	2012	2011
	(in thousands)	
Operating results:		
Revenues:		
Annuity Products	\$ 22,613	\$ (87,080)
Life Products and Other	47,013	36,025
	<u>\$ 69,626</u>	<u>\$ (51,055)</u>
Benefits and expenses:		
Annuity Products	\$(10,022)	\$ 98,835
Life Products and Other	25,164	12,733
	<u>\$ 15,142</u>	<u>\$ 111,568</u>
Income (loss) from Operations before Income Taxes		
Annuity Products	\$ 32,635	\$(185,915)
Life Products and Other	21,849	23,292
	<u>\$ 54,484</u>	<u>\$(162,623)</u>

Annuity Products

Income from Operations before Income Taxes

2012 to 2011 Three Month Comparison. Income from operations before income taxes increased \$219 million from a loss of \$186 million in the third quarter of 2011 to a income of \$33 million in the third quarter of 2012. The increase was primarily driven by lower amortization of deferred policy acquisition costs (“DAC”) and deferred sales inducements (“DSI”) primarily 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 increase was a net favorable 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. These adjustments are primarily driven by the impact on the estimated profitability of the business of quarterly adjustments to reflect current period market performance and experience, as well as the annual review and updates of assumptions, and are discussed in more detail below.

Excluding the items discussed above, income (loss) from operations before income taxes increased compared to the third quarter of 2011 primarily driven by a favorable variance related to the mark-to-market of the embedded derivatives associated with our non-reinsured liability for living benefit embedded derivatives and related hedge positions. Losses on the non-reinsured living benefits were smaller in 3Q12 due to unfavorable market performance in 3Q11 prior to the execution of reinsurance treaties in 4Q11. Also driving the increase was higher fee income, net of distribution costs, due to higher average variable annuity account values invested in separate accounts due to positive net flows from new business sales and market appreciation.

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 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, Inc. (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, Inc. including reinsurance agreements, as discussed in Note 8 to the Unaudited Interim 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 favorable variance from lower amortization of DAC and DSI, was \$93 million of lower amortization related to the impact of the mark-to-market of the reinsured liability for living benefit embedded derivatives and related hedge positions held in our reinsurance affiliate. This impact primarily relates to changes in the valuation of the reinsured living benefit liabilities related to NPR which we and the reinsurance affiliate believe to be non-economic, and choose not to hedge, as discussed above, and differences 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

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. The favorable variance from DAC and DSI amortization was driven by NPR losses in the reinsurance affiliate in the third quarter of 2012, which resulted in amortization benefits, compared to NPR gains in third quarter of 2011 which resulted in amortization expense. Negative NPR adjustments in the reinsurance affiliate in 2012 were primarily driven by tightening of NPR spreads.

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As shown in the following table, the income from operations before income taxes for the third quarter of 2012 included \$5 million of net benefits from adjustments to the amortization of DAC and DSI and the reserves for the GMDB and GMIB features of our variable annuity products, compared to \$8 million of net charges included in the third quarter of 2011.

	Three Months ended September 30, 2012			Three Months Ended September 30, 2011		
	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	\$ 548	\$ 201	\$ 749	\$ (5,074)	\$ (2,331)	\$(7,405)
Annual review / assumption updates	3,997	(2,532)	1,465	(1,349)	984	(365)
Quarterly adjustment for current period experience and other updates (3)	8,026	43	8,069	(1,591)	(54)	(1,645)
Total	\$ 12,571	\$ (2,288)	\$10,283	\$ (8,014)	\$ (1,401)	\$(9,415)

(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 \$1 million of benefits and \$7 million of charges in the third quarter of 2012 and 2011, respectively, shown in the table above, were primarily driven by the impact of market performance on customer accounts relative to our assumptions. Actual returns were higher than expected in the third quarter of 2012, which drove positive cumulative impacts to both the amortization of DAC and DSI and the reserves for the GMDB and GMIB features of our variable annuity contracts, and actual returns were lower than expected in the third quarter of 2011, which drove negative cumulative impacts for these items.

The \$1 million of net benefits and less than \$1 million of net charges in the third quarter of 2012 and 2011, respectively, shown in the table above, relate to the annual review and update of assumptions, and reflect the impact of industry studies and our actual experience. The \$1 million net benefit in the third quarter of 2012 was driven by the impacts of updates to our actuarial assumptions and other refinements, partially offset by updates to our economic assumptions, primarily reflecting reductions to our long-term interest and equity rate of return assumptions. The third quarter of 2011 included net charges of less than \$1 million from these annual reviews, primarily related to a reduction of the weighted average future fixed rate of return assumption, 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 \$8 million of benefits and \$2 million of charges in the third quarter of 2012 and 2011, respectively, shown in the table above, reflect the quarterly adjustments for current period experience, also referred to as experience true-up adjustments. The favorable variance primarily related to the amortization of DAC and DSI primarily driven by differences 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 due to differences in market conditions. For additional information regarding the net hedging impacts that are included in our best estimate of gross profits used to set amortization rates, see “ - Accounting Policies & Pronouncements - Application of Critical Accounting Estimates.”

In addition to the current period impacts reflected in the table above, the changes to the estimated profitability of our business will also drive changes in our GMDB and GMIB reserves and the amortization of DAC and DSI in future periods.

For weighted average rate of return assumptions as of September 30, 2012, see “ - Accounting Policies & Pronouncements - Application of Critical Accounting Estimates.” For additional information on our policy for amortizing DAC and DSI, and for estimating future expected claims costs associated with the GMDB and GMIB features of our variable annuity products, see our Annual Report on Form 10-K for the year ended December 31, 2011, under “ - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Accounting Policies & Pronouncements - Application of Critical Accounting Estimates.”

Revenues

2012 to 2011 Three Month Comparison. Revenues increased \$110 million from a loss of \$87 million in the third quarter of 2011 to income of \$23 million in the third quarter of 2012.

Net realized investment gains (losses) increased \$102 million from a loss of \$111 million in the third quarter of 2011, to a loss of \$9 million in the third quarter of 2012, primarily driven by a favorable variance in the mark-to market related to the embedded derivatives associated with our non-reinsured living benefit features and related hedges, as discussed above.

Policy charges and fee income, consisting primarily of mortality and expense and other insurance charges assessed on policyholders' fund balances, increased \$7 million from \$17 million in the third quarter of 2011 to \$24 million in the third quarter of 2012. The increase was primarily driven by higher average separate account asset balances due to positive net flows from new business sales and market appreciation.

Benefits and Expenses

2012 to 2011 Three Month Comparison. Benefits and expenses decreased \$109 million from an expense of \$99 million in the third quarter of 2011 to a benefit of \$10 million in the third quarter of 2012.

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Amortization of DAC decreased by \$87 million, from an expense of \$64 million in the third quarter of 2011 to a benefit of \$23 million in the third quarter of 2012 primarily due to lower 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 and annual adjustments to reflect current period experience and market performance, as well as the annual review and update of assumptions, as discussed above.

Interest credited to policyholders' account balances decreased \$27 million, from an expense of \$24 million in the third quarter of 2011 to a benefit of \$3 million in the third quarter of 2012, due to lower DSI amortization primarily 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 the annual review and update of assumptions, as discussed above.

Life Products and Other

Income from Operations before Income Taxes

2012 to 2011 Three month Comparison. Income from operations before income taxes decreased \$1 million from \$23 million in the third quarter of 2011 to \$22 million in the third quarter of 2012. The decrease includes \$2 million of net charges and \$1 million of net benefits in the third quarters of 2012 and 2011, respectively, reflecting the impact of certain changes in our estimated profitability of the business resulting from our annual review and update of economic and actuarial assumptions. This annual review covers assumptions used in our estimate of total gross profits which forms the basis for amortizing DAC and unearned revenue reserves ("URR"), as well as establishing the reserve for the GMDB feature in certain contracts. The \$2 million net charge in the third quarter of 2012 primarily reflects reductions to our long-term interest rate and equity return assumptions, which resulted in adjustments increasing both the amortization of DAC and URR and increasing the reserves for the GMDB features in certain contracts. The \$1 million net benefit in the third quarter of 2011 primarily reflects more favorable lapse and mortality experience which resulted in adjustments decreasing both the amortization of DAC and URR and increasing the reserves for the GMDB features in certain contracts.

Revenues

2012 to 2011 Three month Comparison. Revenues increased \$11 million, from \$36 million in the third quarter of 2011 to \$47 million in the third quarter of 2012.

Net investment income increased \$4 million, from \$17 million in the third quarter of 2011 to \$21 million in the third quarter of 2012 reflecting growth in assets supporting higher universal life and variable fixed fund policyholders' account balances and reserves supporting term business, partially offset by lower portfolio yields.

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, of \$10 million in the third quarter of 2012 increased \$3 million, from \$7 million in the third quarter of 2011, including an \$11 million increase in amortization of unearned revenue reserves due to the annual reviews of assumptions. Excluding this item, policy charges and fee income decreased \$8 million reflecting the impact of the variable life in force run-off and the new coinsurance agreement between the Company and PAR U, which resulted in the ceding of policy charge income to this affiliate (see Note 8 to the Unaudited Interim Financial Statements for more information). The impact of continued universal life business growth and a decline in ceded policy charges arising from the recapture of business previously ceded to Prudential Insurance (see Note 8 to the Unaudited Interim Financial Statements for more information) were partial offsets to the decreases.

Net realized investment gains increased \$2 million, from net gains of \$7 million in the third quarter 2011 to \$9 million in the third quarter 2012 primarily driven by \$14 million of realized gains related to asset transfers from the Company to PAR U in the third quarter of 2012 as part of the coinsurance agreement (see Note 8 to the Unaudited Interim Financial Statements for more information), partially offset by declines in the market value of derivatives and a \$5 million derivative loss related to the settlement of the initial premium payable to PAR U as part of a new coinsurance agreement (see Note 8 to the Unaudited Interim Financial Statements for more information).

Asset management fees and other revenue increased \$2 million, from \$2 million in the third quarter of 2011 to \$4 million in the third quarter of 2012. This increase includes \$1 million of amortization of the deferred gain arising from the third quarter 2012 coinsurance agreement between the Company and PAR U (see Note 8 to the Unaudited Interim Financial Statements for more information).

Benefits and Expenses

2012 to 2011 Three month Comparison. Total benefits and expenses increased \$12 million, from \$13 million in the third quarter of 2011 to \$25 million in the third quarter of 2012.

Amortization of deferred policy acquisition costs increased \$12 million, from a \$1 million benefit in the third quarter of 2011 to an \$11 million charge in the third quarter of 2012, including a \$13 million increase in amortization due to the annual reviews of assumptions.

Policyholders' benefits, including interest credited to policyholders' account balances, increased \$3 million, from \$8 million in the third quarter of 2011 to \$11 million in third quarter of 2012, including a \$1 million increase from the impact of the annual reviews of assumptions on reserves for the guaranteed minimum death benefit feature in certain contracts. Excluding this item, policyholders' benefits, including interest credited to

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policyholders' account balances, increased \$2 million including the impact of a decline in reserves ceded arising from the recapture of business previously ceded to Prudential Insurance (see Note 8 to the Consolidated Financial Statements for more information) and growth interest credited to policyholders' account balances arising from higher universal life and variable fixed fund policyholder balances. Lower interest credited to policyholders' account balances arising from the new coinsurance agreement between the Company and PAR U was a partial offset to the increases (see Note 8 to the Consolidated Financial Statements for more information).

		Nine Months Ended September 30,	
		2012	2011
		(in thousands)	
Operating results:			
Revenues:			
Annuity Products		\$ 80,734	\$ (23,287)
Life Products and Other		127,955	112,623
		<u>\$208,689</u>	<u>\$ 89,336</u>
Benefits and expenses:			
Annuity Products		\$ 40,702	\$ 135,769
Life Products and Other		76,831	61,717
		<u>\$117,533</u>	<u>\$ 197,486</u>
Income (loss) from Operations before Income Taxes			
Annuity Products		\$ 40,032	\$(159,056)
Life Products and Other		51,124	50,906
		<u>\$ 91,156</u>	<u>\$(108,150)</u>

Annuity Products

Income from Operations before Income Taxes

2012 to 2011 Nine Month Comparison. Income from operations before income taxes increased \$199 million from a loss of \$159 million in the first nine months of 2011 to income of \$40 million in the first nine months of 2012. The increase was primarily driven by lower amortization of DAC and DSI primarily 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 increase was a net favorable variance related to adjustments to the amortization of DAC and DSI, and in the reserves for the guaranteed minimum death ("GMDDB") and income benefit ("GMIB") features of our variable annuity products. These adjustments are primarily driven by the impact on the estimated profitability of the business of quarterly adjustments to reflect current period market performance and experience, as well as the annual review and updates of assumptions, and are discussed in more detail below.

Excluding the items discussed above, income (loss) from operations before income taxes increased compared to the third quarter of 2011 primarily driven by the mark-to-market of the non-reinsured liability for living benefit embedded derivatives and related hedge positions. Losses on the non-reinsured living benefits were smaller in 3Q12 due to unfavorable market performance in 3Q11 prior to the execution of reinsurance treaties in 4Q11. Also driving the increase was higher fee income, net of distribution costs, due to higher average variable annuity account values invested in separate accounts due to positive net flows from new business sales and market appreciation. The primary driver offsetting this increase was higher general and administrative expenses, net of capitalization, primarily due to higher costs associated with business expansion.

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 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, Inc. (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, Inc. including reinsurance agreements, as discussed in Note 8 to the Unaudited Interim 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 favorable variance from higher amortization of DAC and DSI, was \$94 million of lower amortization related to the impact of the mark-to-market of the reinsured liability for living benefit embedded derivatives and related hedge positions held in our reinsurance affiliate. This impact primarily relates to changes in the valuation of the reinsured living benefit liabilities related to NPR which we and the reinsurance affiliate believe to be non-economic, and choose not to hedge, as discussed above, and differences 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.

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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. The favorable variance from DAC and DSI amortization was driven by NPR losses in the reinsurance affiliate in the third quarter of 2012, which resulted in amortization benefits, compared to NPR gains third quarter of 2011 which resulted in amortization expense. Negative NPR adjustments in the reinsurance affiliate in 2012 were primarily driven by tightening of NPR spreads.

As shown in the following table, the income from operations before income taxes for the first nine months of 2012 included \$11 million of net benefits from adjustments to the amortization of DAC and DSI and the reserves for the GMDB and GMIB features of our variable annuity products, compared to \$9 million of net charges included in the first nine months of 2011.

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	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	\$ 1,034	\$ 733	\$ 1,767	\$ (5,141)	\$ (2,193)	\$(7,334)
Annual review / assumption updates	3,997	(2,532)	1,465	(1,349)	984	(365)
Quarterly adjustment for current period experience and other updates (3)	7,946	22	7,968	(1,127)	26	(1,101)
Total	\$ 12,977	\$ (1,777)	\$11,200	\$ (7,617)	\$ (1,183)	\$(8,800)

(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 \$2 million of net benefits and \$7 million of net charges in the first nine months of 2012 and 2011, respectively, shown in the table above, were primarily driven by the impact of market performance on customer accounts relative to our assumptions. Actual returns were higher than expected in the third quarter of 2012, which drove positive cumulative impacts to both the amortization of DAC and DSI and the reserves for the GMDB and GMIB features of our variable annuity contracts. Actual returns were lower than expected in the third quarter of 2011, which drove negative cumulative impacts for these items.

The \$1 million of net benefits and less than \$1 million of net charges in the third quarter of 2012 and 2011, respectively, shown in the table above, relate to the annual review and update of assumptions, and reflect the impact of industry studies and our actual experience. The \$1 million net benefit in the third quarter of 2012 was driven by the impacts of updates to our actuarial assumptions and other refinements, partially offset by updates to our economic assumptions, primarily reflecting reductions to our long-term interest and equity rate of return assumptions. The third quarter of 2011 included net charges of less than \$1 million from these annual reviews, primarily related to a reduction of the weighted average future fixed rate of return assumption, 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.

\$8 million of benefits and \$1 million of net charges in the third quarter of 2012 and 2011, respectively, shown in the table above, reflect the quarterly adjustments for current period experience, also referred to as experience true-up adjustments. The favorable variance related to the amortization of DAC and DSI was primarily driven by differences 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 due to differences in market conditions. For additional information regarding the net hedging impacts that are included in our best estimate of gross profits used to set amortization rates, see “ - Accounting Policies & Pronouncements - Application of Critical Accounting Estimates.”

Revenues

2012 to 2011 Nine Month Comparison. Revenues increased \$104 million from a loss of \$23 million in 2011 to income of \$81 million in 2012.

Net realized investment gains (losses) decreased \$83 million from a loss of \$90 million in 2011, to a loss of \$7 million in the 2012, primarily driven by a favorable variance in the mark-to market related to the embedded derivatives associated with our non-reinsured living benefit features and related hedges, as discussed above.

Policy charges and fee income, consisting primarily of mortality and expense and other insurance charges assessed on policyholders’ fund balances, increased \$19 million from \$46 million in 2011 to \$65 million in 2012. The increase was primarily driven by higher average separate account asset balances due to positive net flows from new business sales.

Benefits and Expenses

2012 to 2011 Nine Month Comparison. Benefits and expenses decreased \$95 million from \$136 million in 2011 to \$41 million in 2012.

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Amortization of DAC decreased by \$80 million, from an expense of \$74 million in 2011 to a benefit of \$6 million in 2012 primarily due to lower 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 and annual adjustments to reflect current period experience and market performance, as well as the annual review and update of assumptions, as discussed above.

Interest credited to policyholders' account balances decreased \$26 million, from \$32 million in 2011 to \$6 million in 2012, due to lower DSI amortization primarily 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 the annual review and update of assumptions, as discussed above.

Partially offsetting these decreases was an increase in general and administrative expenses, net of capitalization, by \$12 million, from \$25 million in 2011 to \$37 million in 2012. The increase is primarily due to higher costs to support business expansion and higher asset based trail commissions due to higher average variable annuity account values, as discussed above.

Life Products and Other

Income from Operations before Income Taxes

2012 to 2011 Nine month Comparison. Income from operations before income taxes of \$51 million in the first nine months of 2012 was unchanged compared to the first nine months of 2011. Income from operations before income taxes includes \$2 million of net charges and \$1 million of net benefits in the third quarters of 2012 and 2011, respectively, reflecting the impact of certain changes in our estimated profitability of the business resulting from our annual review and update of economic and actuarial assumptions. This annual review covers assumptions used in our estimate of total gross profits which forms the basis for amortizing DAC and unearned revenue reserves ("URR"), as well as establishing the reserve for the GMDB feature in certain contracts. The \$2 million net charge in the third quarter of 2012 primarily reflects reductions to our long-term interest rate and equity return assumptions, which resulted in adjustments increasing both the amortization of DAC and URR and increasing the reserves for the GMDB features in certain contracts. The \$1 million net benefit in the third quarter of 2011 primarily reflects more favorable lapse and mortality experience which resulted in adjustments decreasing the amortization of DAC and URR and increasing the reserves for the GMDB features in certain contracts.

Revenues

2012 to 2011 Nine month Comparison. Revenues increased \$15 million, from \$113 million in the first nine months of 2011 to \$128 million in the first nine months of 2012.

Net investment income increased \$8 million, from \$48 million in the first nine months of 2011 to \$56 million in the first nine months of 2012 reflecting growth in assets supporting higher universal life and variable fixed fund policyholders' account balances and reserves supporting term business, partially offset by lower portfolio yields.

Net realized investment gains increased \$3 million, from net gains of \$9 million in the first nine months of 2011 to \$12 million in the first nine months of 2012 primarily driven by \$14 million of realized gains related to asset transfers from the Company to PAR U in the third quarter of 2012 as part of the coinsurance agreement (see Note 8 to the Unaudited Interim Financial Statements for more information), partially offset by declines in the market value of derivatives and a \$5 million derivative loss related to the settlement of the initial premium payable to PAR U as part of a new coinsurance agreement (see Note 8 to the Unaudited Interim Financial Statements for more information).

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, of \$42 million in the first nine months of 2012 increased \$4 million, from \$38 million in the first nine months of 2011, including an \$11 million increase in amortization of unearned revenue reserves due to the annual reviews of assumptions. Excluding this item, policy charges and fee income decreased \$7 million reflecting the ongoing impact of the variable life in force run-off and the new coinsurance agreement between the Company and PAR U, which resulted in the ceding of policy charge income to this affiliate (see Note 8 to the Unaudited Interim Financial Statements for more information). The impact of continued universal life business growth and a decrease in ceded policy charges arising from the recapture of business previously ceded to Prudential Insurance (see Note 8 to the Unaudited Interim Financial Statements for more information) were partial offsets to the decreases.

Benefits and Expenses

2012 to 2011 Nine month Comparison. Total benefits and expenses increased \$15 million, from \$62 million in the first nine months of 2011 to \$77 million in the first nine months of 2012.

Policyholders' benefits, including interest credited to policyholders' account balances, increased \$8 million, from \$39 million in the first nine months of 2011 to \$47 million in first nine months of 2012, including a \$1 million increase from the impact of the annual reviews of assumptions on reserves for the guaranteed minimum death benefit feature in certain contracts. Excluding this item, policyholders' benefits, including interest credited to policyholders' account balances, increased \$7 million including the impact from a decline in reserves ceded arising from the recapture of business previously ceded to Prudential Insurance (see Note 8 to the Unaudited Interim Financial Statements for more information), growth in reserves supporting our term business, and higher interest credited to policyholders' account balances arising from higher universal life and variable fixed fund policyholders' account balances. Lower interest credited to policyholders' account balances arising from the new coinsurance agreement between the Company and PAR U was a partial offset to the increases (see Note 8 to the Unaudited Interim Financial Statements for more information).

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Amortization of deferred policy acquisition costs increased \$8 million, from \$11 million in the first nine months of 2011 to \$19 million in the first nine months of 2012, including a \$13 million increase in amortization due to the annual reviews of assumptions. Excluding this item, amortization of deferred policy acquisition costs decreased \$5 million including a decrease in amortization of acquisition costs associated with our universal life business reflecting the impact of the new coinsurance agreement between the Company and PAR U (see Note 8 to the Consolidated Financial Statements for more information), a decrease in amortization of acquisition costs associated with our variable business, and a \$1 million decrease arising from a charge in the second quarter of 2011 related to the understatement of deferred reinsurance expense allowances related to affiliated reinsurance of our term business in prior periods.

Income Taxes

The income tax provision amounted to an expense of \$25 million for the nine months ended September 30, 2012 compared to a benefit of \$46 million for the nine months ended September 30, 2011 primarily driven by pre-tax income in the current period compared to a pre-tax loss in the prior period.

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing authorities. 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 statute of limitations for the 2004 through 2006 tax years will expire in June 2013, unless extended. The statute of limitations for the 2007 through 2008 tax years will expire in December 2013, unless extended. Tax years 2009 through 2011 are still open for IRS examination. It is reasonably possible that the total amount of unrecognized tax benefits will decrease anywhere from \$0 to \$112 thousand within the next 12 months due to the completion of the IRS examination for tax years 2007 through 2010.

The dividends received deduction ("DRD") reduces the amount of dividend income subject to U.S. tax and 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 2011, 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 results in 2011 or the first nine months of 2012.

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.

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 stress scenarios.

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Our capital management framework is primarily based on statutory risk based capital measures. In addition, we continue to use an economic capital framework for making certain capital decisions.

Capital Protection Framework

We employ a “Capital Protection Framework” to ensure the availability of capital resources to maintain adequate capitalization and competitive risk based capital ratios, including under reasonably foreseeable stress scenarios. The Capital Protection Framework incorporates the potential impact from market related stresses, including equity markets, interest rates, and credit losses. Potential sources of capital include on-balance sheet capital and proceeds from derivatives, reinsurance and contingent sources of capital. Although we continue to enhance our approach, we believe we currently have sufficient resources to maintain adequate capitalization and competitive risk based capital ratios under reasonably foreseeable stress scenarios.

Regulation Under the Dodd-Frank Act

On October 19, 2012, Prudential Financial received notice that it is under consideration by the Financial Stability Oversight Council (the “Council”) for a proposed determination that it should be subject to stricter prudential regulatory standards and supervision by the Board of Governors of the Federal Reserve System pursuant to the Dodd-Frank Act (a “Covered Company”). The notice of consideration indicates that Prudential Financial is being reviewed in stage 3 of the three-stage process described in the Council’s interpretative guidance for Covered Company determinations and does not constitute a notice of a proposed determination. The Prudential standards under the Dodd-Frank Act include requirements regarding risk-based capital and leverage, liquidity, stress-testing and other matters. See Item 1. Business- “Regulatory Environment” and “Risk Factors” in Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 for information regarding the potential effects of the Dodd-Frank Act 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.

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.

We believe that the cash flows from our 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 \$93 million and \$50 million for the nine months ended September 30, 2012 and 2011, 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.

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Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, fixed maturities that are not designated as held-to-maturity and public equity securities. As of September 30, 2012 and December 31, 2011 the Company had liquid assets of \$1.133 billion and \$1.251 billion, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$35.3 million and \$27.8 million as of September 30, 2012 and December 31, 2011, respectively. As of September 30, 2012, \$1.0 billion, or 93%, of the fixed maturity investments company general account portfolios were rated investment grade. The remaining \$77 million, or 7%, 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 reasonably foreseeable stress scenarios.

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

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. RBC is determined by statutory guidelines and formulas that consider among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of an insurer's statutory capitalization. The RBC ratio is an annual calculation; however as of September 30, 2012, the estimated RBC ratio for the Company exceeded the minimum level required by applicable insurance regulations. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities.

The level of statutory capital of 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, and business growth, 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.

As part of its Capital Protection Framework, Prudential Financial has developed a broad view of the impact of market distress on the statutory capital of Prudential Financial and its subsidiaries, as a whole. The framework includes program designed to mitigate the impact of a severe equity market stress event on the statutory capital of Prudential Financial and its subsidiaries, as a whole. The program focuses on tail risk to protect statutory capital in a cost-effective manner under stress scenarios. To support this tail risk, in addition to holding on-balance sheet and other contingent sources of capital, our parent company purchases equity index-linked derivatives that are designed to mitigate the impact of a severe equity market stress event on statutory capital. 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.

Reinsurance credit reserve requirements can move materially in either direction due to changes in equity markets and interest rates, actuarial assumptions and other factors. Higher statutory reinsurance credit reserve requirements would require us to deposit additional assets in the statutory reserve credit trusts held by Pruco Re, while lower statutory reinsurance credit reserve requirements would allow assets to be removed from the statutory reserve credit trusts. We expect Pruco Re would satisfy those additional needs through a combination of funding the reinsurance credit trusts with available cash, certain hedge assets or collateral associated with the hedge positions, and loans from Prudential Financial and/or affiliates. Pruco Re also continues to evaluate other options to address reserve credit needs such as obtaining letters of credit. Lower interest rates offset by the impact of higher equity markets for the first nine months of 2012 led the captive reinsurance trust requirement to increase by \$25 million.

Affiliated Captive Reinsurance Companies

Our life insurance business is subject to a regulation entitled "Valuation of Life Insurance Policies," commonly known as "Regulation XXX," and a supporting guideline entitled "The Application of the Valuation of Life Insurance Policies," commonly known as "Guideline AXXX." This regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is non-economic. Prudential Financial uses captive reinsurance companies that are affiliates of the Company to implement reinsurance and capital management actions, including financing these non-economic reserves through internal and external solutions.

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In addition, we manage certain risks associated with our variable annuity products primarily through affiliated reinsurance arrangements. We reinsure variable annuity living benefit guarantees to a captive reinsurance company, Pruco Re. Effective as of July 1, 2011, Pruco Re re-domiciled from Bermuda to Arizona. However, for business ceded to Pruco Re by Pruco Life Insurance Company of New Jersey, Pruco Re must collateralize its obligations under the reinsurance arrangement 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.

Contributed Capital

The Company received a capital contribution from Pruco Life in the amount of \$21 million in June 2011 to fund acquisition costs for sales of variable annuities.

The Company received a capital contribution from Pruco Life in the amount of \$17 million in December 2011 to fund acquisition costs for sales of variable annuities.

Item 4. Controls and Procedures

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, have 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 September 30, 2012. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2012, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), occurred during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to legal and regulatory actions in the ordinary course of our businesses, including class action lawsuits. Our pending legal and regulatory actions may include proceedings specific to us and proceedings generally applicable to business practices in the industry in which we operate. We are also subject to litigation arising out of our general business activities, such as our investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment and could be exposed to claims or litigation concerning certain business or process patents. Regulatory authorities from time to time make inquiries and conduct investigations and examinations which may relate particularly to us and our products or to industry-wide issues or matters upon which such regulators have determined to focus. In some of our pending legal and regulatory actions, parties may seek large and/or indeterminate amounts, including punitive or exemplary damages.

For additional information regarding our litigation and regulatory matters accrual methodology and our estimated range of reasonably possible losses in excess of accruals established, as well as additional discussion on our litigation and regulatory matters referred to below, see Note 6 to the Unaudited Interim Consolidated Financial Statements included herein.

Following is a discussion of recent material developments concerning our legal and regulatory proceedings:

In September 2012, the Complaint filed in *Total Asset Recovery v. MetLife, 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 withdrawn without prejudice.

Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation or regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company's litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on our financial position. Management believes, however, that based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on our financial position.

See "Contingent Liabilities" within Note 6 to the Unaudited Interim Financial Statements for a discussion concerning audits and inquiries concerning the Company's handling of unclaimed property.

The foregoing discussion is limited to recent material developments concerning our legal and regulatory proceedings. See Note 6 to the Unaudited Interim Financial Statements included herein for additional discussion of our litigation and regulatory matters, including those referred to above.

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Item 1A. Risk Factors

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011. These risks could materially affect our business, results of operations or financial condition, or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2011.

The risk factor contained in our 2011 Form 10-K titled “The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act will subject us to substantial additional federal regulation and we cannot predict the effect on our business, results of operations, cash flows or financial condition” is hereby updated to note that on October 19, 2012, Prudential Financial received notice that it is under consideration by the Financial Stability Oversight Council for designation as a non-bank financial company to be subject to stricter prudential regulatory standards and supervision by the Board of Governors of the Federal Reserve System pursuant to the Dodd-Frank Act.

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Item 6. Exhibits

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.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to the Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements 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.

Pruco Life Insurance Company of New Jersey

By: /s/ Thomas J. Diemer
Thomas J. Diemer
Vice President,
Chief Financial Officer
(Authorized Signatory and Principal Accounting and Financial
Officer)

Date: November 13, 2012

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company of New Jersey;
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 is made known to us by others within such entity, 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: November 13, 2012

/s/ Robert F. O'Donnell

Robert F. O'Donnell
President and Chief Executive Officer

CERTIFICATION

I, Thomas J. Diemer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company of New Jersey;
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 is made known to us by others within such entity, 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: November 13, 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, President and Chief Executive Officer of Pruco Life Insurance Company of New Jersey (the "Company"), hereby certify that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (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: November 13, 2012

/s/ Robert F. O'Donnell

Name: Robert F. O'Donnell

Title: President and 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 J. Diemer, Vice President and Chief Financial Officer of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (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: November 13, 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.