
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 033-37587

**Pruco Life Insurance
Company**

(Exact name of Registrant as specified in its charter)

Arizona
(State or other jurisdiction of
incorporation or organization)

22-1944557
(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 August 13, 2013, 250,000 shares of the registrant's Common Stock (par value \$10), were outstanding. As of such date, The Prudential Insurance Company of America, a New Jersey Corporation, owned all of the Registrant's Common Stock.

**Pruco Life Insurance Company meets the conditions set
forth in General Instruction (H) (1) (a) and (b) on Form 10-Q and
is therefore filing this Form 10-Q in 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 and its subsidiaries. There can be no assurance that future developments affecting Pruco Life Insurance Company and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement, with regard to variable annuity or other product guarantees; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, longevity, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs; (9) changes in our financial strength or credit ratings; (10) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (11) investment losses, defaults and counterparty non-performance; (12) competition in our product lines and for personnel; (13) difficulties in marketing and distributing products through current or future distribution channels; (14) changes in tax law; (15) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (16) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (17) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities; (18) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (19) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (20) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; and (21) changes in statutory or accounting principles generally accepted in the United States of America ("U.S. GAAP"), practices or policies. Pruco Life Insurance Company does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" herein and in the Annual Report on Form 10-K for the year ended December 31, 2012 for discussion of certain risks relating to our business.

Part I—Financial Information

Item 1. Financial Statements

PRUCO LIFE INSURANCE COMPANY

**Unaudited Interim Consolidated Statements of Financial Position
As of June 30, 2013 and December 31, 2012 (in thousands, except share amounts)**

	June 30, 2013	December 31, 2012
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2013 – \$6,169,501; 2012 – \$5,662,255)	\$ 6,329,128	\$ 6,135,765
Equity securities, available for sale, at fair value (cost: 2013 – \$12,070; 2012 – \$3,119)	11,544	4,327
Trading account assets, at fair value	23,639	11,376
Policy loans	1,086,128	1,079,714
Short-term investments	73,830	112,337
Commercial mortgage and other loans	1,507,446	1,463,977
Other long-term investments	168,607	284,489
Total investments	9,200,322	9,091,985
Cash and cash equivalents	139,489	412,109
Deferred policy acquisition costs	4,474,737	3,679,061
Accrued investment income	94,415	90,653
Reinsurance recoverables	11,886,884	7,032,175
Receivables from parents and affiliates	312,328	183,044
Deferred sales inducements	866,725	787,891
Income taxes	-	9,910
Other assets	50,070	47,453
Separate account assets	88,643,298	80,887,276
TOTAL ASSETS	\$ 115,668,268	\$ 102,221,557
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances	\$ 13,631,937	\$ 8,557,077
Future policy benefits and other policyholder liabilities	6,564,534	6,696,813
Cash collateral for loaned securities	89,632	48,068
Income taxes	13,495	-
Short-term debt to affiliates	343,000	272,000
Long-term debt to affiliates	1,382,000	1,511,000
Payables to parent and affiliates	112,242	6,694
Other liabilities	906,838	726,737
Separate account liabilities	88,643,298	80,887,276
TOTAL LIABILITIES	111,686,976	98,705,665
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)		
EQUITY		
Common stock, (\$10 par value; 1,000,000 shares, authorized; 250,000 shares, issued and outstanding)	2,500	2,500
Additional paid-in capital	804,158	818,303
Retained earnings	3,086,680	2,427,628
Accumulated other comprehensive income	87,954	267,461
TOTAL EQUITY	3,981,292	3,515,892
TOTAL LIABILITIES AND EQUITY	\$ 115,668,268	\$ 102,221,557

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUCO LIFE INSURANCE COMPANY
Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
Three and Six Months Ended June 30, 2013 and 2012 (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES				
Premiums	\$ 13,891	\$ 20,077	\$ 27,097	\$ 31,260
Policy charges and fee income	486,876	346,174	950,301	671,986
Net investment income	105,032	105,322	207,540	207,179
Asset administration fees	78,964	67,076	161,327	129,913
Other income	11,176	14,386	(6,707)	29,245
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(2,424)	(9,832)	(7,277)	(15,747)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income	2,212	6,115	5,668	11,464
Other realized investment gains (losses), net	(39,413)	11,885	8,698	(6,023)
Total realized investment gains (losses), net	(39,625)	8,168	7,089	(10,306)
TOTAL REVENUES	<u>656,314</u>	<u>561,203</u>	<u>1,346,647</u>	<u>1,059,277</u>
BENEFITS AND EXPENSES				
Policyholders' benefits	64,890	89,076	127,296	105,954
Interest credited to policyholders' account balances	26,448	209,197	53,416	159,719
Amortization of deferred policy acquisition costs	(78,758)	552,931	(158,600)	240,262
General, administrative and other expenses	217,321	202,893	443,233	407,425
TOTAL BENEFITS AND EXPENSES	<u>229,901</u>	<u>1,054,097</u>	<u>465,345</u>	<u>913,360</u>
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	<u>426,413</u>	<u>(492,894)</u>	<u>881,302</u>	<u>145,917</u>
Income tax expense (benefit)	114,416	(139,531)	222,250	37,976
NET INCOME (LOSS)	<u>\$ 311,997</u>	<u>\$ (353,363)</u>	<u>\$ 659,052</u>	<u>\$ 107,941</u>
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	69	(438)	(138)	(220)
Net unrealized investment gains (losses):				
Unrealized investment gains (losses) for the period	(235,553)	56,963	(240,516)	52,082
Reclassification adjustment for (gains) losses included in net income	(4,451)	(2,747)	(35,509)	(2,835)
Net unrealized investment gains (losses)	(240,004)	54,216	(276,025)	49,247
Other comprehensive income (loss), before tax	(239,935)	53,778	(276,163)	49,027
Less: Income tax expense (benefit) related to:				
Foreign currency translation adjustments	25	(153)	(48)	(77)
Net unrealized investment gains (losses)	(84,002)	18,975	(96,608)	17,412
Total	(83,977)	18,822	(96,656)	17,335
Other comprehensive income (loss), net of tax:	(155,958)	34,956	(179,507)	31,692
COMPREHENSIVE INCOME (LOSS)	<u>\$ 156,039</u>	<u>\$ (318,407)</u>	<u>\$ 479,545</u>	<u>\$ 139,633</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Unaudited Interim Consolidated Statements of Equity
Six Months Ended June 30, 2013 and 2012 (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, 2012	\$ 2,500	\$ 818,303	\$ 2,427,628	\$ 267,461	\$ 3,515,892
Contributed(distributed)					
capital-parent/children asset transfers	-	(14,145)	-	-	(14,145)
Comprehensive income (loss):					
Net income (loss)	-	-	659,052	-	659,052
Other comprehensive income (loss), net of tax	-	-	-	(179,507)	(179,507)
Total comprehensive income (loss)	-	-	-	-	479,545
Balance, June 30, 2013	<u>\$ 2,500</u>	<u>\$ 804,158</u>	<u>\$ 3,086,680</u>	<u>\$ 87,954</u>	<u>\$ 3,981,292</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, 2011	\$ 2,500	\$ 836,021	\$ 1,743,291	\$ 213,628	\$ 2,795,440
Contributed(distributed)					
capital-parent/children asset transfers	-	(13,378)	-	-	(13,378)
Comprehensive income (loss):					
Net income (loss)	-	-	107,941	-	107,941
Other comprehensive income (loss), net of tax	-	-	-	31,692	31,692
Total comprehensive income (loss)	-	-	-	-	139,633
Balance, June 30, 2012	<u>\$ 2,500</u>	<u>\$ 822,643</u>	<u>\$ 1,851,232</u>	<u>\$ 245,320</u>	<u>\$ 2,921,695</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Unaudited Interim Consolidated Statements of Cash Flows
Six Months Ended June 30, 2013 and 2012 (in thousands)

	2013	2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	\$ 659,052	\$ 107,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Policy charges and fee income	(95,612)	(62,658)
Interest credited to policyholders' account balances	53,416	159,719
Realized investment (gains) losses, net	(7,089)	10,306
Amortization and other non-cash items	(23,113)	(29,093)
Change in:		
Future policy benefits and other insurance liabilities	565,390	586,194
Reinsurance recoverables	(516,820)	(555,528)
Accrued investment income	(4,692)	(539)
Receivables from parent and affiliates	(68,857)	14,549
Payables to parent and affiliates	39,021	382
Deferred policy acquisition costs	(649,898)	(340,462)
Income taxes payable	127,679	47,037
Deferred sales inducements	(13,325)	(138,095)
Other, net	(53,729)	(21,523)
Cash flows from (used in) operating activities	\$ 11,423	\$ (221,770)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	\$ 673,173	\$ 549,359
Short-term investments	369,310	576,280
Policy loans	65,544	63,704
Ceded policy loans	(3,629)	(1,797)
Commercial mortgage and other loans	77,301	50,114
Other long-term investments	3,195	7,712
Equity securities, available for sale	2,342	78
Trading account assets, at fair value	817	6,163
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(1,218,979)	(795,773)
Short-term investments	(330,805)	(644,804)
Policy loans	(49,639)	(54,209)
Ceded policy loans	4,498	4,506
Commercial mortgage and other loans	(121,449)	(67,937)
Other long-term investments	(18,543)	(39,928)
Equity securities, available for sale	(10,508)	(5,023)
Trading account assets, at fair value	(9,478)	-
Notes receivable from parent and affiliates, net	8,402	9,718
Other, net	696	1,269
Cash flows from (used in) investing activities	\$ (557,752)	\$ (340,568)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Policyholders' account deposits	\$ 1,833,747	\$ 1,861,057
Ceded policyholders' account deposits	(180,700)	(114,600)
Policyholders' account withdrawals	(1,388,518)	(1,444,034)
Ceded policyholders' account withdrawals	18,301	15,530
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	41,564	(104,440)
Contributed/Distributed capital - parent/child asset transfers	(3,524)	(19,456)
Net change in financing arrangements (maturities 90 days or less)	(8,000)	14,000
Net change in long-term borrowing	(50,000)	316,000
Drafts outstanding	10,839	(2,307)
Cash flows from (used in) financing activities	\$ 273,709	\$ 521,750
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(272,620)	(40,588)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	412,109	287,423
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 139,489	\$ 246,835

See Notes to Unaudited Interim Financial Statements

Significant Non Cash Transactions

Cash Flows from Investing Activities for the six months ended June 30, 2013 excludes \$56 million of increases in fixed maturities, available for sale and \$132 million of decreases in fixed maturities, available for sale related to the amendments of the reinsurance agreements between the Company and UPARC, an affiliate, and the Company, and PAR U, an affiliate (See Note 8).

Cash Flows from Investing Activities for the six months ended June 30, 2013 excludes \$4,951 million of increases in fixed maturities, available for sale, commercial mortgages, short-term investments, and trading account assets related to the coinsurance of Guaranteed Universal Life (“GUL”) business assumed from Prudential Insurance in connection with the acquisition of the Hartford Life Business. Cash Flows from Investing Activities for the six months ended June 30, 2013 excludes \$4,952 million of decreases in fixed maturities, available for sale, commercial mortgages, short-term investments, and trading account assets related to the subsequent retrocession of this GUL business assumed from Prudential Insurance to PAR U, an affiliate (See Note 8).

Cash Flows from Financing Activities for the six months ended June 30, 2013 excludes \$12 million of decreases in Contributed/Distributed capital - parent/child asset transfers related to the coinsurance of Guaranteed Universal Life (“GUL”) business assumed from Prudential Insurance in connection with the acquisition of the Hartford Life Business.

Pruco Life Insurance Company
Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

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

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

Acquisition of The Hartford’s Individual Life Insurance Business

On January 2, 2013, Prudential Insurance acquired The Hartford’s individual life insurance business (“Hartford Life Business”) through a reinsurance transaction. Under the agreement, Prudential Insurance paid The Hartford cash consideration of \$615 million, primarily in the form of a ceding commission to provide reinsurance for approximately 700,000 life insurance policies with net retained face amount in force of approximately \$141 billion. This acquisition increases our scale in the U.S. individual life insurance market, particularly universal life products, and provides complimentary distribution opportunities through expanded wirehouse and bank distribution channels.

In connection with this transaction, Prudential Insurance retroceded to the Company, the portion of the assumed business that is classified as guaranteed universal life insurance (“GUL”) with account values of approximately \$4 billion as of January 2, 2013. The Company has reinsured more than 79,000 GUL policies with a net retained face amount in force of approximately \$30 billion. The Company then retroceded all of the GUL policies to an affiliated captive reinsurance company. Collectively, these transactions do not have a material impact on equity, as determined in accordance with U.S. GAAP, or the statutory capital and surplus of the Company.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with 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”). Intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

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; valuation of investments including derivatives and the recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; 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

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Investments in Debt and Equity Securities and Commercial Mortgage and Other Loans

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. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as "held-to-maturity." The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount is included in "Net investment income" under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including 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 mortgage-backed and asset-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)" ("AOCI").

Trading account assets, at fair value, represents equity securities held in support of a deferred compensation plan and other fixed maturity securities carried at fair value. Realized and unrealized gains and losses for these investments are reported in "Asset administration fees and other income." Interest and dividend income from these investments is reported in "Net investment income."

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 AOCI. 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.

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

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments. The values utilized in calculating these ratios are developed as part of the Company's periodic review of the commercial mortgage loan and agricultural loan portfolio, which includes an internal appraisal of the underlying collateral value. The Company's periodic review also includes a quality re-rating process, whereby the internal quality rating originally assigned at underwriting is updated based on current loan, property and market information using a proprietary quality rating system. The loan-to-value ratio is the most significant of several inputs used to establish the internal credit rating of a loan which in turn drives the allowance for losses. Other key factors considered in determining the internal credit rating include debt service coverage ratios, amortization, loan term, estimated market value growth rate and volatility for the property type and region. See Note 3 for additional information related to the loan-to-value ratios and debt service coverage ratios related to the Company's commercial mortgage and agricultural loan portfolios.

The allowance for losses on commercial mortgage and other loans can increase or decrease from period to period based on the factors noted above. "Realized investment gains (losses), net" includes changes in the allowance for losses. "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.

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

See Note 3 for additional information about commercial mortgage and other loans that have been restructured in a troubled debt restructuring.

Short-term investments primarily consist of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased. These investments are generally carried at fair value and include certain money market investments, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments.

Realized investment gains (losses) are computed using the specific identification method. Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for net other-than-temporary impairments recognized in earnings. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, allowance for losses on commercial mortgage and other loans, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment.

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

An other-than-temporary impairment is recognized in earnings for a debt security in an unrealized loss position when the Company 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 Company analyzes 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.

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 AOCI.

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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.

Derivative Financial Instruments

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

Derivatives are used in a non-broker-dealer capacity to manage the interest rate and currency characteristics of assets or liabilities. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 5, all realized and unrealized changes in fair value of derivatives are recorded in current earnings, with the exception of the effective portion of cash flow hedges. Cash flows from derivatives are reported in the operating, investing, or financing activities sections in the Unaudited Interim Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

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

The Company designates derivatives as either (1) a hedge of 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 specific firm commitments or 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 AOCI 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." The component of AOCI related to discontinued cash flow hedges is reclassified to the income statement line associated with the hedged cash flows consistent with the earnings impact of the original hedged cash flows.

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

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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 benefit features 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.”

The Company, excluding its subsidiaries, also sells certain universal life products that contain a no lapse guarantee provision that is reinsured with an affiliate, UPARC. The reinsurance of this no lapse guarantee results in an embedded derivative that incurs market risk primarily in the form of interest rate risk. Interest rate sensitivity can result in changes in the value of the underlying contractual guarantees that are carried at fair value and included in “Reinsurance recoverables,” and changes in “Realized investment gains (losses), net.” In the third quarter of 2011, the Company amended its reinsurance agreement resulting in a recapture of a portion of this business (See Note 8) effective July 1, 2011. Pursuant to the recapture amendment, the settlement of the recapture premium occurred subsequent to the effective date of the recapture. As a result, the recapture premium was treated as if settled on the effective date and adjusted for the time elapsed between this date and the settlement date. This adjustment was equal to the earned interest and changes in market values from the effective date through the settlement date related to fixed maturity securities from an asset portfolio within UPARC. This settlement feature was accounted for as a derivative.

Concurrent with the recapture discussed above, the Company entered into a new coinsurance agreement with an affiliate, PAR U effective July 1, 2011. The settlement of the initial coinsurance premium also occurred subsequent to the effective date of the coinsurance agreement and contains a settlement provision similar to the recapture premium, discussed above. The adjustment to the initial coinsurance premium was equal to the earned interest and changes in market values from the effective date through settlement date related to fixed maturity securities from both an asset portfolio within the Company, as well as an asset portfolio within UPARC. The settlement feature of this agreement was accounted for as a derivative (See Note 8 for additional information about this agreement).

In the third quarter of 2012, the Company’s wholly owned subsidiary, PLNJ, entered a new coinsurance agreement with an affiliate, PAR U effective July 1, 2012. 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 the effective date and the settlement date. This adjustment to the initial coinsurance premium was equal to the earned interest and changes in market values from the effective date through settlement date related to fixed maturity securities from an asset portfolio within PLNJ. 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 six months ended June 30, 2013 and change in effective tax rate was primarily driven by an increase in pre-tax income for the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Adoption of New Accounting Pronouncements

In December 2011 and January 2013, the Financial Accounting Standards Board (“FASB”) issued updated guidance regarding the disclosure of recognized derivative instruments (including bifurcated embedded derivatives), repurchase agreements and securities borrowing/lending transactions that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement (irrespective of whether they are offset in the statement of financial position). This new guidance requires an entity to disclose information on both a gross and net basis about instruments and transactions within the scope of this guidance. This new guidance is effective for interim or annual reporting periods beginning on or after January 1, 2013, and should be applied retrospectively for all comparative periods presented. The disclosures required by this guidance are included in Note 5.

In February 2013, the FASB issued updated guidance regarding the presentation of comprehensive income. Under the guidance, an entity is required to separately present information about significant items reclassified out of accumulated other comprehensive income by component as well as changes in accumulated other comprehensive income balances by component in either the financial statements or the notes to the financial

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statements. The guidance does not change the items that are reported in other comprehensive income, does not change when an item of other comprehensive income must be reclassified to net income, and does not amend any existing requirements for reporting net income or other comprehensive income. The guidance is effective for the first interim or annual reporting period beginning after December 15, 2012 and should be applied prospectively. The disclosures required by this guidance are included in Note 3.

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:

	June 30, 2013				
	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	\$ 91,273	\$ 8,156	\$ 806	\$ 98,623	\$ -
Obligations of U.S. states and their political subdivisions	81,930	2,242	5,217	78,955	-
Foreign government bonds	20,424	4,196	-	24,620	-
Public utilities	708,856	35,095	21,868	722,083	-
Redeemable preferred stock	7,041	328	140	7,229	-
All other corporate securities	4,100,515	190,535	91,131	4,199,919	(318)
Asset-backed securities (1)	316,495	16,538	1,945	331,088	(8,034)
Commercial mortgage-backed securities	541,642	27,080	10,731	557,991	-
Residential mortgage-backed securities (2)	301,325	12,837	5,542	308,620	(1,077)
Total fixed maturities, available-for-sale	\$ 6,169,501	\$ 297,007	\$ 137,380	\$ 6,329,128	\$ (9,429)
Equity securities, available-for-sale					
Common Stocks:					
Industrial, miscellaneous & other	\$ 70	\$ 43	\$ -	\$ 113	
Mutual Funds	10,660	4	699	9,965	
Non-redeemable preferred stocks	1,340	126	-	1,466	
Total equity securities, available-for-sale	\$ 12,070	\$ 173	\$ 699	\$ 11,544	

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

(3) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income (loss)," or "AOCI," which were not included in earnings. Amount excludes \$13 million of net unrealized gains on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

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	December 31, 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	\$ 172,541	\$ 15,088	\$ 10	\$ 187,619	\$ -
Obligations of U.S. states and their political subdivisions	79,166	6,516	485	85,197	-
Foreign government bonds	21,709	5,802	-	27,511	-
Public utilities	620,654	68,512	1,334	687,832	-
Redeemable preferred stock	6,400	360	-	6,760	-
All other corporate securities	3,601,052	309,470	6,480	3,904,042	(344)
Asset-backed securities (1)	360,258	19,362	6,146	373,474	(21,330)
Commercial mortgage-backed securities	446,558	42,932	69	489,421	-
Residential mortgage-backed securities (2)	353,917	20,228	236	373,909	(1,095)
Total fixed maturities, available-for-sale	<u>\$ 5,662,255</u>	<u>\$ 488,270</u>	<u>\$ 14,760</u>	<u>\$ 6,135,765</u>	<u>\$ (22,769)</u>
Equity securities available-for-sale					
Common Stocks:					
Industrial, miscellaneous & other (4)	\$ 1,566	\$ 1,118	\$ -	\$ 2,684	
Mutual Funds (4)	157	6	9	154	
Non-redeemable preferred stocks	1,396	93	-	1,489	
Total equity securities, available-for-sale	<u>\$ 3,119</u>	<u>\$ 1,217</u>	<u>\$ 9</u>	<u>\$ 4,327</u>	

- (1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.
- (2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
- (3) Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings. Amount excludes \$22 million of net unrealized gains or losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.
- (4) Prior period has been reclassified to conform to the current period presentation.

The amortized cost and fair value of fixed maturities by contractual maturities at June 30, 2013, are as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	\$ 490,196	\$ 501,413
Due after one year through five years	1,262,286	1,359,230
Due after five years through ten years	1,522,653	1,565,817
Due after ten years	1,734,904	1,704,969
Asset-backed securities	316,495	331,088
Commercial mortgage-backed securities	541,642	557,991
Residential mortgage-backed securities	301,325	308,620
Total	<u>\$ 6,169,501</u>	<u>\$ 6,329,128</u>

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

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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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Fixed maturities, available-for-sale				
Proceeds from sales	\$ 197,132	\$ 19,051	\$ 242,318	\$ 58,190
Proceeds from maturities/repayments	258,923	296,563	433,247	493,068
Gross investment gains from sales, prepayments and maturities	5,766	7,783	39,154	8,754
Gross investment losses from sales and maturities	(1,103)	(590)	(2,834)	(706)
Equity securities, available-for-sale				
Proceeds from sales	\$ -	\$ 91	\$ 2,352	\$ 91
Proceeds from maturities/repayments	3	-	3	-
Gross investment gains from sales	-	27	854	27
Gross investment losses from sales	-	(34)	-	(34)
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings (1)	\$ (212)	\$ (3,719)	\$ (1,609)	\$ (4,285)
Writedowns for other-than-temporary impairment losses on equity securities	-	(721)	(56)	(922)

(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 June 30, 2013	Six Months Ended June 30, 2013
	(in thousands)	
Balance, beginning of period	\$ 15,716	\$ 27,702
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1,287)	(13,674)
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	-	14
Additional credit loss impairments recognized in the current period on securities previously impaired	212	709
Increases due to the passage of time on previously recorded credit losses	219	441
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(20)	(352)
Balance, end of period	\$ 14,840	\$ 14,840

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	(in thousands)	
Balance, beginning of period	\$ 27,559	\$ 31,507
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(636)	(2,328)
Credit loss impairments previously recognized on securities impaired to fair value during the period (1)	-	(3,128)
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	699	1,220
Increases due to the passage of time on previously recorded credit losses	338	798
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(418)	(527)
Balance, end of period	\$ 27,542	\$ 27,542

(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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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Trading Account Assets

The following table sets forth the composition of trading account assets, at fair value as of the dates indicated:

	June 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Fixed maturities	\$ 19,274	\$ 19,680	\$ 7,647	\$ 8,099
Equity securities (1)	3,083	3,959	3,083	3,277
Total trading account assets	<u>\$ 22,357</u>	<u>\$ 23,639</u>	<u>\$ 10,730</u>	<u>\$ 11,376</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” was \$0.2 million of losses during both the three months ended June 30, 2013 and 2012, and \$0.6 million of gains and \$0.3 million of losses during the six months ended June 30, 2013 and 2012, respectively.

Commercial Mortgage and Other Loans

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

	June 30, 2013		December 31, 2012	
	Amount (in thousands)	% of Total	Amount (in thousands)	% of Total
Commercial mortgage and other loans by property type:				
Industrial	\$ 262,068	17.3%	\$ 273,900	18.6%
Retail	478,038	31.6	461,939	31.4
Apartments/Multi-Family	267,246	17.7	239,623	16.3
Office	234,253	15.5	237,566	16.2
Hospitality	56,982	3.8	50,052	3.4
Other	101,761	6.7	89,548	6.1
Total commercial mortgage loans	1,400,348	92.6	1,352,628	92.0
Agricultural property loans	111,757	7.4	117,377	8.0
Total commercial and agricultural mortgage loans by property type	1,512,105	100.0%	1,470,005	100.0%
Valuation allowance	(10,019)		(6,028)	
Total net commercial and agricultural mortgage loans by property type	<u>1,502,086</u>		<u>1,463,977</u>	
Other Loans				
Uncollateralized loans	5,360		-	
Total other loans	<u>5,360</u>		<u>-</u>	
Total commercial mortgage and other loans	<u>\$ 1,507,446</u>		<u>\$ 1,463,977</u>	

The commercial and agricultural mortgage loans are geographically dispersed throughout the United States with the largest concentrations in California (19%), New Jersey (12%), and Texas (10%) at June 30, 2013.

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

	June 30, 2013	December 31, 2012
	(in thousands)	
Allowance for losses, beginning of year	\$ 6,028	\$ 12,813
Addition to / (release of) allowance of losses	3,991	(1,551)
Charge-off net of recoveries	-	(5,234)
Allowance for losses, end of year (1)	<u>\$ 10,019</u>	<u>\$ 6,028</u>

(1) Agricultural loans represent \$0.4 million of the ending allowance for the periods ended June 30, 2013 and December 31, 2012.

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

	June 30, 2013	December 31, 2012
	Total Loans	
	(in thousands)	
Allowance for Credit Losses:		
Ending balance: individually evaluated for impairment (1)	\$ 3,554	\$ 372
Ending balance: collectively evaluated for impairment (2)	6,465	5,656
Total ending balance	\$ 10,019	\$ 6,028
Recorded Investment: (3)		
Ending balance gross of reserves: individually evaluated for impairment (1)	\$ 13,942	\$ 6,415
Ending balance gross of reserves: collectively evaluated for impairment (2)	1,503,523	1,463,590
Total ending balance, gross of reserves	\$ 1,517,465	\$ 1,470,005

(1) There were no agricultural or uncollateralized loans individually evaluated for impairments at June 30, 2013 and December 31, 2012.

(2) Agricultural loans collectively evaluated for impairment had a recorded investment of \$112 million and \$117 million at June 30, 2013 and December 31, 2012, respectively and a related allowance of \$0.4 million for both periods. Uncollateralized loans collectively evaluated for impairment had a recorded investment of \$5 million and \$0 million at June 30, 2013 and December 31, 2012, respectively and no related allowance for both periods.

(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. Impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses, as of June 30, 2013 and December 31, 2012, had a recorded investment and unpaid principal balance of \$13.9 million and \$6.4 million and related allowance of \$3.6 million and \$0.4 million, respectively, primarily related to the hospitality, retail and other property types. At both June 30, 2013 and December 31, 2012, the Company held no impaired agricultural or uncollateralized loans. Net investment income recognized on these loans totaled \$0.1 million for the period ending June 30, 2013, and \$0.5 million for the year ended December 31, 2012.

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 June 30, 2013 and December 31, 2012, 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 both June 30, 2013 and December 31, 2012, 96% of the \$1.5 billion recorded investment had a loan-to-value ratio of less than 80%. As of June 30, 2013 and December 31, 2012, 94% and 96%, respectively, of the recorded investment had a debt service coverage ratio of 1.0X or greater. As of June 30, 2013, approximately \$90 million or 6% 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 or uncollateralized loans. As of December 31, 2012, approximately \$59 million or 4% 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 or uncollateralized loans.

As of June 30, 2013 and December 31, 2012, all commercial mortgage and other loans were in current status, with the exception of \$6.4 million at both June 30, 2013 and December 31, 2012, that were classified as past due, primarily related to other property types. As of June 30, 2013 and December 31, 2012, \$13.9 million and \$6.4 million, respectively, of commercial mortgage and other loans, were in non-accrual status based upon the recorded investment gross of allowance for credit losses, primarily related to hospitality, retail and other property types. 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. The Company defines current in its aging of past due commercial mortgage and agricultural loans as less than 30 days past due.

For the three months ended June 30, 2013 and December 31, 2012, there were no commercial mortgage and other loans sold or acquired.

Commercial mortgage and other loans are occasionally restructured in a troubled debt restructuring. These restructurings generally include one or more of the following: full or partial payoffs outside of the original contract terms; changes to interest rates; extensions of maturity; or additions or modifications to covenants. Additionally, the Company may accept assets in full or partial satisfaction of the debt as part of a troubled debt restructuring. When restructurings occur, they are evaluated individually to determine whether the restructuring or modification constitutes a "troubled debt restructuring" as defined by authoritative accounting guidance. The Company has no significant outstanding investment related to commercial mortgage and other loans that have been restructured in a troubled debt restructuring.

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of June 30, 2013 and December 31, 2012, the additional funds the Company has committed to provide to borrowers involved in a troubled debt restructuring is not material. During the six months ended June 30, 2013 and 2012, respectively, there were no new troubled debt restructurings related to commercial mortgage loans, and no payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the 12 months preceding each respective period.

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

Net Investment Income

Net investment income for the three and six months ended June 30, 2013 and 2012, were from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Fixed maturities, available-for-sale	\$ 71,368	\$ 68,077	\$ 139,877	\$ 135,960
Equity securities, available-for-sale	-	26	1	33
Trading account assets	176	298	309	616
Commercial mortgage and other loans	21,219	21,218	41,923	42,305
Policy loans	14,468	14,377	28,605	28,475
Short-term investments and cash equivalents	172	223	416	542
Other long-term investments	2,554	5,587	6,256	8,244
Gross investment income	109,957	109,806	217,387	216,175
Less: investment expenses	(4,925)	(4,484)	(9,847)	(8,996)
Net investment income	<u>\$ 105,032</u>	<u>\$ 105,322</u>	<u>\$ 207,540</u>	<u>\$ 207,179</u>

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and six months ended June 30, 2013 and 2012 were from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Fixed maturities	\$ 4,451	\$ 3,474	\$ 34,711	\$ 3,763
Equity securities	-	(728)	798	(929)
Commercial mortgage and other loans	242	959	690	1,060
Joint ventures and limited partnerships	(6)	-	(57)	-
Derivatives	(44,315)	4,463	(29,063)	(14,218)
Other	3	-	10	18
Realized investment gains (losses), net	<u>\$ (39,625)</u>	<u>\$ 8,168</u>	<u>\$ 7,089</u>	<u>\$ (10,306)</u>

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of “Accumulated other comprehensive income (loss)” for the six months ended June 30, 2013 and 2012 are as follows:

	Accumulated Other Comprehensive Income (Loss)		
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses) (1)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, December 31, 2012	\$ 258	\$ 267,204	\$ 267,461
Change in other comprehensive income before reclassifications	(138)	(240,516)	(240,654)
Amounts reclassified from AOCI	-	(35,509)	(35,509)
Income tax benefit (expense)	48	96,608	96,656
Balance, June 30, 2013	<u>\$ 168</u>	<u>\$ 87,787</u>	<u>\$ 87,954</u>

	Accumulated Other Comprehensive Income (Loss)		
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses) (1)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, December 31, 2011	\$ 133	\$ 213,495	\$ 213,628
Change in component during period (2)	(143)	31,835	31,692
Balance, June 30, 2012	<u>\$ (9)</u>	<u>\$ 245,330</u>	<u>\$ 245,320</u>

- (1) Includes cash flow hedges of \$6 million and \$0 million as of June 30, 2013 and December 31, 2012, respectively, and \$4 million and \$3 million as of June 30, 2012 and December 31, 2011, respectively.
(2) All amounts are shown net of taxes.

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss) (“AOCI”)

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(in thousands)	
Amounts reclassified from AOCI (1)(2):		
Net unrealized investment gains (losses):		
Cash flow hedges - Currency/Interest rate (3)	\$ 254	\$ 538
Net unrealized investment gains (losses) on available-for-sale securities (4)	4,197	34,971
Total net unrealized investment gains (losses)	4,451	35,509
Total reclassifications for the period	\$ 4,451	\$ 35,509

- (1) All amounts are shown before tax.
(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(3) See Note 5 for additional information on cash flow hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders’ dividends.

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 Consolidated 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	Future Policy Benefits and 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, 2012	\$ (618)	\$ 295	\$ 563	\$ (115)	\$ 125
Net investment gains (losses) on investments arising during the period	527	-	-	(184)	343
Reclassification adjustment for (gains) losses included in net income	3,370	-	-	(1,180)	2,190
Reclassification adjustment for OTTI losses excluded from net income (1)	3	-	-	(1)	2
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	-	(2,437)	-	853	(1,584)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders’ account balance	-	-	313	(110)	203
Balance, June 30, 2013	\$ 3,282	\$ (2,142)	\$ 876	\$ (737)	\$ 1,279

- (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.

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) on Investments (1)	Deferred Policy Acquisition Costs and Other Costs	Future Policy Benefits and Policy Holder Account Balances (in thousands)	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
Balance, December 31, 2012	\$ 505,100	\$ (220,208)	\$ 125,833	\$ (143,646)	\$ 267,079
Net investment gains (losses) on investments arising during the period	(282,559)	-	-	98,896	(183,663)
Reclassification adjustment for (gains) losses included in net income	(38,879)	-	-	13,608	(25,271)
Reclassification adjustment for OTTI losses excluded from net income (2)	(3)	-	-	1	(2)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	-	152,905	-	(53,517)	99,388
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances	-	-	(109,266)	38,243	(71,023)
Balance, June 30, 2013	<u>\$ 183,659</u>	<u>\$ (67,303)</u>	<u>\$ 16,567</u>	<u>\$ (46,415)</u>	<u>\$ 86,508</u>

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

(2) Represents "transfers out" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

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

	June 30, 2013	December 31, 2012
	(in thousands)	
Fixed maturity securities on which an OTTI loss has been recognized	\$ 3,282	\$ (618)
Fixed maturity securities, available-for-sale - all other	156,343	474,128
Equity securities, available-for-sale	(526)	1,208
Derivatives designated as cash flow hedges (1)	5,766	147
Other investments	22,076	29,617
Net unrealized gains (losses) on investments	<u>\$ 186,941</u>	<u>\$ 504,482</u>

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

Duration of Gross Unrealized Loss Positions for Fixed Maturities and Equity Securities

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity securities and equity securities have been in a continuous unrealized loss position, as of the dates indicated:

	June 30, 2013					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Fixed maturities, available-for-sale						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 17,884	\$ 806	\$ -	\$ -	\$ 17,884	\$ 806
Obligations of U.S. states and their political subdivisions	54,992	5,217	-	-	54,992	5,217
Foreign government bonds	-	-	-	-	-	-
Corporate securities	1,808,637	110,441	27,547	2,698	1,836,184	113,139
Asset-backed securities	13,182	76	12,684	1,869	25,866	1,945
Commercial mortgage-backed securities	144,191	10,725	336	6	144,527	10,731
Residential mortgage-backed securities	151,825	5,494	3,536	48	155,361	5,542
Total	<u>\$ 2,190,711</u>	<u>\$ 132,759</u>	<u>\$ 44,103</u>	<u>\$ 4,621</u>	<u>\$ 2,234,814</u>	<u>\$ 137,380</u>
Equity securities, available-for-sale	<u>\$ 9,853</u>	<u>\$ 688</u>	<u>\$ 52</u>	<u>\$ 11</u>	<u>\$ 9,905</u>	<u>\$ 699</u>

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2012					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Fixed maturities, available-for-sale						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 4,338	\$ 10	\$ -	\$ -	\$ 4,338	\$ 10
Obligations of U.S. states and their political subdivisions	21,128	485	-	-	21,128	485
Foreign government bonds	-	-	-	-	-	-
Corporate securities	290,127	7,070	18,221	744	308,348	7,814
Asset-backed securities	44,821	76	24,997	6,070	69,818	6,146
Commercial mortgage-backed securities	12,549	60	521	9	13,070	69
Residential mortgage-backed securities	20,276	164	4,347	72	24,623	236
Total	\$ 393,239	\$ 7,865	\$ 48,086	\$ 6,895	\$ 441,325	\$ 14,760
Equity securities, available-for-sale	\$ 54	\$ 9	\$ -	\$ -	\$ 54	\$ 9

The gross unrealized losses, related to fixed maturities at June 30, 2013 and December 31, 2012 are composed of \$131 million and \$9 million, respectively, related to high or highest quality securities based on National Association of Insurance Commissioners, or “NAIC”, or equivalent rating and \$6 million and \$6 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At June 30, 2013, \$1 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 \$6 million at December 31, 2012 that represented declines in value of greater than 20%, \$0 million of which had been in that position for less than six months. At June 30, 2013 and December 31, 2012, \$5 million and \$7 million respectively, of gross unrealized losses of twelve months or more were concentrated in asset-backed securities and corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at June 30, 2013 and December 31, 2012. 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 June 30, 2013, 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.

At both June 30, 2013 and December 31, 2012, less than \$1 million of the gross unrealized losses related to equity securities, represented declines in value of greater than 20%, none 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 June 30, 2013 or December 31, 2012.

4. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement - Fair value represents 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 fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. 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. The Company’s Level 1 assets and liabilities primarily include certain cash equivalents, 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.

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Notes to Unaudited Interim Consolidated 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 June 30, 2013				
	Level 1	Level 2	Level 3 (in thousands)	Netting (1)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ -	\$ 98,623	\$ -	\$ -	\$ 98,623
Obligations of U.S. states and their political subdivisions	-	78,955	-	-	78,955
Foreign government bonds	-	24,620	-	-	24,620
Corporate securities	-	4,910,628	18,603	-	4,929,231
Asset-backed securities	-	201,213	129,875	-	331,088
Commercial mortgage-backed securities	-	552,944	5,047	-	557,991
Residential mortgage-backed securities	-	308,620	-	-	308,620
Sub-total	-	6,175,603	153,525	-	6,329,128
Trading account assets:					
Corporate securities	-	12,432	-	-	12,432
Asset-backed securities	-	3,988	-	-	3,988
Commercial mortgage-backed securities	-	3,260	-	-	3,260
Equity securities	-	-	3,959	-	3,959
Sub-total	-	19,680	3,959	-	23,639
Equity securities, available for sale	114	9,964	1,466	-	11,544
Short-term investments	11,455	62,375	-	-	73,830
Cash equivalents	9,671	109,855	-	-	119,526
Other long-term investments	-	111,091	931	(120,443)	(8,421)
Receivables from parents and affiliates	-	175,769	3,648	-	179,417
Sub-total excluding separate account assets	21,240	6,664,337	163,529	(120,443)	6,728,663
Separate account assets (2)					
Total assets	\$ 473,333	\$ 87,898,789	\$ 271,176	\$ -	\$ 88,643,298
	\$ 494,573	\$ 94,563,126	\$ 434,705	\$ (120,443)	\$ 95,371,961
Future policy benefits					
	\$ -	\$ -	\$ (366,311)	\$ -	\$ (366,311)
Other liabilities (3)					
	-	120,443	370,489	(120,443)	370,489
Total liabilities	\$ -	\$ 120,443	\$ 4,178	\$ (120,443)	\$ 4,178

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2012				
	Level 1	Level 2	Level 3 (in thousands)	Netting (1)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ -	\$ 187,619	\$ -	\$ -	\$ 187,619
Obligations of U.S. states and their political subdivisions	-	85,197	-	-	85,197
Foreign government bonds	-	27,511	-	-	27,511
Corporate securities	-	4,561,653	36,981	-	4,598,634
Asset-backed securities	-	264,747	108,727	-	373,474
Commercial mortgage-backed securities	-	489,421	-	-	489,421
Residential mortgage-backed securities	-	373,909	-	-	373,909
Sub-total	-	5,990,057	145,708	-	6,135,765
Trading account assets:					
Asset-backed securities	-	4,008	-	-	4,008
Commercial mortgage-backed securities	-	4,091	-	-	4,091
Equity securities	-	-	3,277	-	3,277
Sub-total	-	8,099	3,277	-	11,376
Equity securities, available for sale	2,683	155	1,489	-	4,327
Short-term investments	81,308	31,029	-	-	112,337
Cash equivalents	10,305	307,394	-	-	317,699
Other long term investments	-	187,384	988	(68,689)	119,683
Reinsurance recoverables	-	-	1,287,157	-	1,287,157
Receivables from parents and affiliates	-	184,128	1,995	-	186,123
Sub-total excluding separate account assets	94,296	6,708,246	1,440,614	(68,689)	8,174,467
Separate account assets (2)	345,437	80,293,584	248,255	-	80,887,276
Total assets	\$ 439,733	\$ 87,001,830	\$ 1,688,869	\$ (68,689)	\$ 89,061,743
Future policy benefits	\$ -	\$ -	\$ 1,417,891	\$ -	\$ 1,417,891
Other liabilities	-	68,689	-	(68,689)	-
Total liabilities	\$ -	\$ 68,689	\$ 1,417,891	\$ (68,689)	\$ 1,417,891

(1) "Netting" amounts represent the impact of offsetting asset and liability positions held with the same counterparty.

(2) 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 Consolidated Statements of Financial Position.

(3) Reinsurance of variable annuity living benefit features classified as "Reinsurance Recoverables" at December 31, 2012 and March 31, 2013 were reclassified to "Other Liabilities" at June 30, 2013 as they were in a net liability position.

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 for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company 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 with an internally-developed valuation. As of June 30, 2013 and December 31, 2012, over-rides on a net basis were not material. 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. If the fair value is determined using pricing inputs that are observable in the market, the securities have been reflected within Level 2; otherwise a Level 3 classification is used.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Private fixed maturities also include debt investments in funds that, pay a stated coupon and, a return based upon the results of the underlying portfolios. The fair values of these securities are determined by reference to the funds' net asset value ("NAV"). Since the NAV at which the funds trade can be observed by redemption and subscription transactions between third parties, the fair values of these investments have been reflected within Level 2 in the fair value hierarchy.

Trading Account Assets - Trading account assets consist primarily of asset-backed securities, perpetual preferred stock and commercial mortgage-backed securities whose fair values are determined consistent with similar instruments described above under "Fixed Maturity Securities" and below under "Equity Securities."

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 discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore 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 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 can be affected by changes in interest rates, foreign exchange rates, credit spreads, market volatility, expected returns, non-performance risk, liquidity and other factors. Liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity, and other specific attributes of the underlying derivative position.

The majority of the Company's derivative positions are traded in the over-the-counter ("OTC") derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models 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.

The company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

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 structured products. These derivatives are valued based upon models (such as Monte Carlo simulation models and other techniques) with some significant unobservable market inputs or inputs (e.g. interest rates, equity indices, dividend yields, etc.) from less actively traded markets (e.g., model-specific input values, including volatility parameters, etc.). Level 3 methodologies are validated through periodic comparison of the Company's fair values to broker-dealer values. As of June 30, 2013 and December 31, 2012, there were derivatives with the fair value of \$0.0 million and \$0.2 million, respectively, 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 this category are generally fair valued based on market observable inputs and, these investments have primarily been classified within Level 2.

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."

Receivables from Parent and Affiliates - Receivables from Parent and Affiliates 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 guarantees are accounted for as embedded derivatives and are recorded in "Reinsurance Recoverables" or "Other Liabilities" when fair value is in an asset or liability position, respectively. The methods and assumption used to estimate the fair value are consistent with those described below in "Future Policy Benefits." The reinsurance agreements covering these guarantees are derivatives with fair value determined in the same manner as the living benefit guarantee.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Company also has an agreement with UPARC, an affiliated captive reinsurance company, to reinsure risks associated with the no-lapse guarantee provision available on a portion of certain universal life products (See Note 8). Under this agreement, the Company pays a premium to UPARC to reinsure the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision. Reinsurance of this risk is accounted for as an embedded derivative which is included in “Reinsurance recoverables”. The fair value of this embedded derivative is the present value of expected reimbursement from UPARC for cost of insurance charges the Company is unable to collect from policyholders, less the present value of reinsurance premiums that is attributable to the embedded derivative feature. This methodology could result in either an asset or liability, given changes in capital market conditions and various policyholder behavior assumptions. Significant inputs to the valuation model for this embedded derivative include capital market assumptions, such as interest rates, the Company’s market-perceived risk of the counterparty, UPARC’s non-performance (“NPR”), and various assumptions that are actuarially determined, including lapse rates, premium payment patterns, and mortality rates. This embedded derivative had a value of zero at June 30, 2013 and December 31, 2012 primarily due to NPR.

Future Policy Benefits - The liability for future policy benefits primarily includes general account liabilities for the optional living benefit features of the Company’s 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 contractholders less the present value of assessed rider fees attributable to the optional living benefit feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various contractholder 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 these embedded derivatives include capital market assumptions, such as interest rate and implied volatility assumptions, the Company’s market-perceived risk of its own NPR, as well as actuarially determined assumptions, including contractholder behavior, such as 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 contractholders’ 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 contractholders’ account values and discount all projected future cash flows. The Company’s discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread over LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, 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. These assumptions are generally updated in the third quarter of each year unless a material change that the Company feels is indicative of a long term trend is observed in an interim period.

Transfers between Levels 1 and 2 - There were no transfers between Levels 1 and 2 for the three and six months ended June 30, 2013. During the three and six months ended June 30, 2012, \$8.6 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. Transfers between levels are generally reported at the values as of the beginning of the period in which the transfers occur.

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

	As of June 30, 2013		
	Internal (1)	External (2)	Total
	(in thousands)		
Corporate securities	16,411	2,192	18,603
Asset-backed securities	5,738	124,137	129,875
Commercial mortgage-backed securities	-	5,047	5,047
Equity securities	1,466	3,959	5,425
Other long-term investments	-	931	931
Receivables from parents and affiliates	-	3,648	3,648
Sub-total excluding separate account assets	23,615	139,914	163,529
Separate account assets	78,399	192,777	271,176
Total assets	\$ 102,014	\$ 332,691	\$ 434,705
Future policy benefits	\$ (366,311)	\$ -	\$ (366,311)
Other Liabilities	370,489	-	370,489
Total liabilities	\$ 4,178	\$ -	\$ 4,178

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	As of December 31, 2012		
	Internal (1)	External (2) (in thousands)	Total
Corporate securities	31,356	5,625	36,981
Asset-backed securities	5,929	102,798	108,727
Equity securities	1,489	3,277	4,766
Other long-term investments	232	756	988
Reinsurance recoverables	1,287,157	-	1,287,157
Receivables from parents and affiliates	-	1,995	1,995
Sub-total excluding separate account assets	1,326,163	114,451	1,440,614
Separate account assets	77,286	170,969	248,255
Total assets	<u>\$ 1,403,449</u>	<u>\$ 285,420</u>	<u>\$ 1,688,869</u>
Future policy benefits	<u>\$ 1,417,891</u>	<u>\$ -</u>	<u>\$ 1,417,891</u>
Total liabilities	<u>\$ 1,417,891</u>	<u>\$ -</u>	<u>\$ 1,417,891</u>

(1) Represents valuations which could incorporate both internally-derived and market inputs. 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 non-binding broker quotes where pricing inputs are not readily available.

Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities - The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities.

	As of June 30, 2013						Impact of Increase in Input on Fair Value (1)
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum (in thousands)	Maximum	Weighted Average	
Assets:							
Corporate securities	\$ 16,411	Discounted cash flow	Discount rate	8.22%	15.00%	10.56%	Decrease
		Market Comparables	EBITDA Multiples (2)	6.0X	7.5X	6.38X	Increase
		Liquidation	Liquidation value	31.14%	78.52%	62.75%	Increase
Liabilities:							
Other Liabilities	370,489	Represents reinsurance of variable annuity living benefit in a liability position. Fair values are determined in the same manner as future policy benefits					
Future policy benefits (3)	\$ (366,311)	Discounted cash flow	Lapse rate (4)	0%	14%		Decrease
			NPR spread (5)	0.11%	1.59%		Decrease
			Utilization rate (6)	70%	94%		Increase
			Withdrawal rate (7)	85%	100%		Increase
			Mortality rate (8)	0%	13%		Decrease
			Equity Volatility curve	18%	33%		Increase

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2012						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum (in thousands)	Maximum	Weighted Average	Impact of Increase in Input on Fair Value (1)
Assets:							
Corporate securities	\$ 31,356	Discounted cash flow	Discount rate	8.90%	1.75%	10.60%	Decrease
		Cap at call price	Call price	100%	100%		Increase
		Liquidation	Liquidation value	98%	98%		Increase
Reinsurance recoverables	\$ 1,287,157	Fair values are determined in the same manner as future policy benefits					
Liabilities:							
Future policy benefits (3)	\$ 1,417,891	Discounted cash flow	Lapse rate (4)	0%	14%		Decrease
			NPR spread (5)	0.20%	1.60%		Decrease
			Utilization rate (6)	70%	94%		Increase
			Withdrawal rate (7)	85%	100%		Increase
			Mortality rate (8)	0%	13%		Decrease
			Equity Volatility curve	19%	34%		Increase

(1) Conversely, the impact of a decrease in input would have the opposite impact for the fair value as that presented in the table.

(2) EBITDA multiples represent multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.

(3) Future policy benefits primarily represent general account liabilities for the optional living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(4) Base lapse rates are adjusted at the contract level based on a comparison of the actuarially calculated guaranteed amount and the current contractholder account value as well as other factors, such as the applicability of any surrender charges. A dynamic lapse adjustment reduces the base lapse rate when the guaranteed amount is greater than the account value, as in-the-money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.

(5) To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuation of individual living benefit contracts in a liability position and generally not to those in a contra-liability position. In determining the NPR spread, the Company reflects the financial strength ratings of the Company as these are insurance liabilities and senior to debt. The additional spread over LIBOR is determined taking into consideration publicly available information relating to the financial strength of the Company adjusted for any illiquidity risk premium.

(6) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. These assumptions vary based on the product type, the age of the contractholder and the age of the contract. 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.

(7) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. The fair value of the liability will generally increase the closer the withdrawal rate is to 100%.

(8) Range reflects the mortality rate for the vast majority of business with living benefits, with contractholders 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%. Based on historical experience, the Company applies a set of age and duration specific mortality rate adjustments compared to standard industry tables. A mortality improvement assumption is also incorporated into the overall mortality table.

Interrelationships Between Unobservable Inputs - In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another, or multiple, inputs. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

Corporate Securities - The rate used to discount future cash flows reflects current risk free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term, and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors.

Future Policy Benefits - The unobservable contractholder behavior inputs related to the liability for the optional living benefit features of the Company's variable annuity contracts included in future policy benefits are generally based on a long-term view of historical experience. While experience for these products is still emerging, the Company expects benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, contractholder behavior is generally highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. The dynamic lapse adjustment assumes lower lapses when the guaranteed amount is greater than the account value, as in-the-money contracts are less likely to lapse. Therefore, to the extent contractholder behavior results in greater in-the-moneyness at the contract level, the dynamic lapse function will reduce lapse rates for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, the dynamic lapse function will lower overall lapse rates as contracts become more in-the-money.

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

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and thus are offset by changes in separate account liabilities on the Company's Unaudited Interim Consolidated Statement of Financial Position. As a result, changes in value associated with these investments do not impact the Company's Unaudited Interim Consolidated 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 \$78.4 million of investments in real estate fund as of June 30, 2013 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 ranged from 5.00% to 9.50% (7.03% weighted average) and discount rates, which range from 7.00% to 11.75% (8.20% weighted average).

Valuation Process for Fair Value Measurements Categorized within Level 3 - The Company has established an internal control infrastructure over the valuation of financial instruments that requires ongoing oversight by its various Business Groups. These management control functions are segregated from the trading and investing functions. For invested assets, the Company has established oversight teams, often in the form of Pricing Committees within each asset management group. The teams, which typically include representation from investment, accounting, operations, legal and other disciplines are responsible for overseeing and monitoring the pricing of the Company's investments and performing periodic due diligence reviews of independent pricing services. An actuarial valuation team oversees the valuation of optional living benefit features of the Company's variable annuity contracts.

The Company has also 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 investment prices against market activity or indicators of reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. For optional living benefit features of the Company's variable annuity products, the actuarial valuation unit periodically performs baseline testing of contract input data and actuarial assumptions are reviewed at least annually, and updated based upon historical experience giving consideration to any observable market data, including available industry studies. The valuation policies and guidelines are reviewed and updated as appropriate.

Within the trading and investing functions, the Company has established policies and procedures that relate to the approval of all new transaction types, transaction pricing sources and fair value hierarchy coding within the financial reporting system. For variable annuity product changes or new launches of optional living benefit features, the actuarial valuation unit validates input logic and new product features and agrees new input data directly to source documents.

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 June 30, 2013				
	Fixed Maturities Available For Sale				
	Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities (in thousands)	Other Trading Account Assets-Equity Securities	Equity Securities, Available for Sale
Fair Value, beginning of period assets/(liabilities)	\$ 39,791	\$ 119,053	\$ -	\$ 3,737	\$ 1,448
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	84	-	-	-	-
Asset management fees and other income	-	-	-	222	-
Included in other comprehensive income (loss)	(856)	(155)	(3)	-	18
Net investment income	19	86	-	-	-
Purchases	1,597	15,280	5,050	-	-
Sales	(3)	(1)	-	-	-
Issuances	-	-	-	-	-
Settlements	(15,736)	(4,388)	-	-	-
Transfers into Level 3 (2)	-	-	-	-	-
Transfers out of Level 3 (2)	(6,293)	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 18,603	\$ 129,875	\$ 5,047	\$ 3,959	\$ 1,466
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	\$ -	\$ -	\$ -	\$ 222	\$ -

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Three Months Ended June 30, 2013					
	Other Long-term Investments	Receivables from Parents and Affiliates	Separate Account Assets (1) (in thousands)	Future Policy Benefits	Other Liabilities (4)
Fair Value, beginning of period assets/(liabilities)	\$ 842	\$ 3,000	\$ 262,007	\$ (575,595)	\$ 504,797
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(9)	0	10	1,085,244	(1,008,441)
Asset management fees and other income	11	-	-	-	-
Interest credited to policyholders' account balances	-	-	5,282	-	-
Included in other comprehensive income (loss)	-	(5)	-	-	-
Net investment income	87	(998)	-	-	-
Purchases	-	2,651	8,515	-	133,155
Sales	-	(1,000)	(4,638)	-	-
Issuances	-	-	-	(143,338)	-
Settlements	-	-	-	-	-
Transfers into Level 3 (2)	-	-	-	-	-
Transfers out of Level 3 (2)	-	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 931	\$ 3,648	\$ 271,176	\$ 366,311	\$ (370,489)
Unrealized gains (losses) for the period relating to those					
Level 3 assets that were still held at the end of the period (3):					
Included in earnings:					
Realized investment gains (losses), net	\$ -	\$ -	\$ -	\$ 1,082,731	\$ (1,006,152)
Asset management fees and other income	\$ 10	\$ -	\$ -	\$ -	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ 5,283	\$ -	\$ -

Six Months Ended June 30, 2013					
Fixed Maturities Available For Sale					
	Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities (in thousands)	Trading Account Assets-Equity Securities	Equity Securities, Available for Sale
Fair Value, beginning of period assets/(liabilities)	\$ 36,981	\$ 108,727	\$ -	\$ 3,277	\$ 1,489
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(696)	-	-	-	(56)
Asset management fees and other income	-	-	-	682	-
Included in other comprehensive income (loss)	(940)	164	(3)	-	33
Net investment income	58	174	-	-	-
Purchases	11,724	33,078	8,484	380	-
Sales	(2,323)	(1)	-	-	-
Issuances	-	-	-	-	-
Settlements	(19,908)	(12,267)	(3,434)	(380)	-
Transfers into Level 3 (2)	-	-	-	-	-
Transfers out of Level 3 (2)	(6,293)	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 18,603	\$ 129,875	\$ 5,047	\$ 3,959	\$ 1,466
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	\$ -	\$ -	\$ -	\$ 682	\$ -

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	Six Months Ended June 30, 2013				
	Other Long-term Investments	Receivables from Parents and Affiliates	Separate Account Assets (1) (in thousands)	Future Policy Benefits	Other Liabilities (4)
Fair Value, beginning of period assets/(liabilities)	\$ 988	\$ 1,995	\$ 248,255	\$ (1,417,891)	\$ 1,287,157
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(232)	-	758	2,061,810	(1,915,881)
Asset management fees and other income	88	-	-	-	-
Interest credited to policyholders' account balances	-	-	11,072	-	-
Included in other comprehensive income (loss)	-	2	-	-	-
Net investment income	-	-	-	-	-
Purchases	87	2,651	36,496	-	258,235
Sales	-	(1,000)	(25,405)	-	-
Issuances	-	-	-	(277,608)	-
Settlements	-	-	-	-	-
Transfers into Level 3 (2)	-	-	-	-	-
Transfers out of Level 3 (2)	-	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 931	\$ 3,648	\$ 271,176	\$ 366,311	\$ (370,489)
Unrealized gains (losses) for the period relating to those					
Level 3 assets that were still held at the end of the period (3):					
Included in earnings:					
Realized investment gains (losses), net	\$ -	\$ -	\$ -	\$ 2,051,063	\$ (1,906,147)
Asset management fees and other income	\$ 89	\$ -	\$ -	\$ -	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ 11,072	\$ -	\$ -

	Three Months Ended June 30, 2012				
	Fixed Maturities Available For Sale				
	U.S. Treasury Securities	Corporate Securities	Asset-Backed Securities (in thousands)	Commercial Mortgage-Backed Securities	Other Trading Account Assets-Equity Securities
Fair Value, beginning of period assets/(liabilities)	\$ 4,697	\$ 47,422	\$ 51,440	\$ -	\$ 3,461
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	-	(3,046)	77	-	-
Asset management fees and other income	-	-	-	-	(30)
Included in other comprehensive income (loss)	2	(619)	(11)	85	-
Net investment income	-	27	148	-	-
Purchases	-	5,027	37,282	-	-
Sales	-	(80)	-	-	-
Issuances	-	(1,769)	-	-	-
Settlements	-	(481)	(2,021)	-	(50)
Transfers into Level 3 (2)	-	-	-	5,246	-
Transfers out of Level 3 (2)	-	(16,022)	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 4,699	\$ 30,459	\$ 86,915	\$ 5,331	\$ 3,381
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	\$ -	\$ -	\$ -	\$ -	\$ (30)

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Three Months Ended June 30, 2012					
	Equity Securities, Available for Sale	Other Long-term investments	Reinsurance Recoverables (in thousands)	Separate Account Assets (1)	Future Policy Benefits
Fair Value, beginning of period assets/(liabilities)	\$ 2,561	\$ 3,738	\$ 343,816	\$ 238,983	\$ (350,661)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	-	(192)	572,067	170	(633,456)
Asset management fees and other income	-	(26)	-	-	-
Interest credited to policyholders' account balances	(302)	-	-	(4,753)	-
Included in other comprehensive income (loss)	-	-	-	-	-
Net investment income	-	-	-	-	-
Purchases	-	143	121,040	15,081	-
Sales	-	-	-	(12,847)	-
Issuances	-	-	-	-	(103,386)
Settlements	-	(2)	-	-	-
Transfers into Level 3 (2)	-	-	-	-	-
Transfers out of Level 3 (2)	(4)	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 2,255	\$ 3,661	\$ 1,036,923	\$ 236,634	\$ (1,087,503)
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	\$ -	\$ (192)	\$ 575,880	\$ -	\$ (637,356)
Asset management fees and other income	\$ -	\$ (26)	\$ -	\$ -	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ -	\$ (4,754)	\$ -

Six Months Ended June 30, 2012					
	Fixed Maturities, Available for Sale				
	U.S. Treasury Securities	Corporate Securities	Asset-Backed Securities (in thousands)	Commercial Mortgage-Backed Securities	Other Trading Account Assets-Equity Securities
Fair Value, beginning of period assets/(liabilities)	\$ 4,696	\$ 23,720	\$ 62,429	\$ -	\$ 3,362
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	-	(2,971)	77	-	-
Asset management fees and other income	-	-	-	-	69
Included in other comprehensive income (loss)	3	180	2,661	85	-
Net investment income	-	49	253	-	-
Purchases	-	8,392	37,282	-	-
Sales	-	(83)	-	-	-
Issuances	-	-	-	-	-
Settlements	-	(4,363)	(9,972)	-	(50)
Transfers into Level 3 (2)	-	21,655	-	5,246	-
Transfers out of Level 3 (2)	-	(16,120)	(5,815)	-	-
Fair Value, end of period assets/(liabilities)	\$ 4,699	\$ 30,459	\$ 86,915	\$ 5,331	\$ 3,381
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	\$ -	\$ -	\$ -	\$ -	\$ 69

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Six Months Ended June 30, 2012				
	Equity Securities, Available for Sale	Other Long- term investments	Reinsurance Recoverables (in thousands)	Separate Account Assets (1)	Future Policy Benefits
Fair Value, beginning of period assets/(liabilities)	\$ 2,652	\$ 686	\$ 868,824	\$ 222,323	\$ (912,987)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(201)	(1,961)	(19,147)	(611)	25,115
Asset management fees and other income	-	5	-	-	-
Interest credited to policyholders' account balances	-	-	-	3,862	-
Included in other comprehensive income (loss)	(192)	-	-	-	-
Net investment income	-	-	-	-	-
Purchases	-	4,925	187,246	54,916	-
Sales	-	-	-	(43,856)	-
Issuances	-	-	-	-	(199,631)
Settlements	-	6	-	-	-
Transfers into Level 3 (2)	-	-	-	-	-
Transfers out of Level 3 (2)	(4)	-	-	-	-
Fair Value, end of period assets/(liabilities)	<u>\$ 2,255</u>	<u>\$ 3,661</u>	<u>\$ 1,036,923</u>	<u>\$ 236,634</u>	<u>\$ (1,087,503)</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	\$ -	\$ (1,851)	\$ (12,466)	\$ -	\$ 18,124
Asset management fees and other income	\$ -	\$ 5	\$ -	\$ -	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ -	\$ 3,862	\$ -

- (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 Consolidated Statements of Financial Position.
- (2) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.
- (3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (4) Reinsurance of variable annuity living benefit features classified as "Reinsurance Recoverable" at December 31, 2012 and March 31, 2013 were reclassified to "Other Liabilities" - at June 30, 2013 as they were in a net liability position.

Transfers - Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. 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.

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.

	June 30, 2013				December 31, 2012		
	Fair Value				Carrying Amount (1) Total	Fair Value Total	Carrying Amount Total
	Level 1	Level 2	Level 3 (in thousands)	Total			
Assets:							
Commercial mortgage and other loans	\$ -	\$ 5,235	\$ 1,608,548	\$ 1,613,783	\$ 1,507,446	\$ 1,616,804	\$ 1,463,977
Policy loans	-	-	1,341,860	1,341,860	1,086,128	1,455,412	1,079,714
Cash	19,963	-	-	19,963	19,963	94,410	94,410
Accrued investment income	-	94,415	-	94,415	94,415	90,653	90,653
Receivables from parent and affiliates	-	133,467	-	133,467	132,911	(3,146)	(3,751)
Other assets	-	38,228	-	38,228	38,228	32,782	32,176
Total Assets	<u>\$ 19,963</u>	<u>\$ 271,345</u>	<u>\$ 2,950,408</u>	<u>\$ 3,241,716</u>	<u>\$ 2,879,091</u>	<u>\$ 3,286,915</u>	<u>\$ 2,757,179</u>
Liabilities:							
Policyholders' Account Balances - Investment Contracts	\$ -	\$ 793,614	\$ 47,993	\$ 841,607	\$ 846,333	\$ 793,280	\$ 796,816
Cash collateral for loaned securities	-	89,632	-	89,632	89,632	48,068	48,068
Securities sold under agreement to repurchase	-	-	-	0	-	-	-
Short-term debt	-	346,317	-	346,317	343,000	272,981	272,000
Long-term debt	-	1,414,769	-	1,414,769	1,382,000	1,563,185	1,511,000
Payables to parent and affiliates	-	112,242	-	112,242	112,242	6,694	6,694
Other liabilities	-	231,363	-	231,363	231,363	224,751	224,751
Total liabilities	<u>\$ -</u>	<u>\$ 2,987,937</u>	<u>\$ 47,993</u>	<u>\$ 3,035,930</u>	<u>\$ 3,004,570</u>	<u>\$ 2,908,959</u>	<u>\$ 2,859,329</u>

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (1) Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements 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 have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Commercial Mortgage and Other Loans

The fair value of 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, Receivables from Parent and Affiliates 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 receivables from parents and affiliates 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, similar to the securities sold under agreement to repurchase below. 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 and Payables to Parent and Affiliates

Other liabilities and Payables to parent and affiliates are primarily payables, such as unsettled trades, 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.

Pruco Life Insurance Company**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)****5. DERIVATIVE INSTRUMENTS***Types of Derivative Instruments and Derivative Strategies**Interest Rate Contracts*

Interest rate swaps are used by the Company to reduce risks from changes in interest rates, 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 owns or anticipates acquiring or selling. Swaps may be attributed to specific assets or liabilities or may be used on a portfolio basis. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date.

Equity Contracts

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range. These hedges do not qualify for hedge accounting.

Foreign Exchange Contracts

Currency derivatives, including currency swaps and forwards, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the impact of changes in currency exchange rates on U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

Under currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date.

Credit Contracts

Credit derivatives are used by the Company to enhance the return on the Company's investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments. With credit derivatives the Company can sell credit protection on an identified name, and in return receive a quarterly premium. With credit default derivatives, this premium or credit spread generally corresponds to the difference between the yield on the referenced name's public fixed maturity cash instruments and swap rates, at the time the agreement is executed. If there is an event of default by the referenced name, 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 or pay the referenced amount less the auction recovery rate. See credit derivatives written section for discussion of guarantees related to credit derivatives written. In addition to selling credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio.

Embedded Derivatives

The Company sells variable annuity products, which may include guaranteed benefit features that are accounted for as embedded derivatives. The Company has reinsurance agreements to transfer the risk related to certain of these benefit features to an affiliate, Pruco Re. The embedded derivatives related to the living benefit features and the related reinsurance agreements are carried at fair value. These embedded derivatives are marked to market through "Realized investment gains (losses), net" based on the change in value of the underlying contractual guarantees, which are determined using valuation models, as described in Note 4.

The fair value of the living benefit feature embedded derivatives included in "Future policy benefits" was an asset of \$366 million and a liability of \$1,418 million as of June 30, 2013 and December 31, 2012, respectively. The fair value of the embedded derivatives related to the reinsurance of certain of these benefits to Pruco Re included in "Other liabilities" and "Reinsurance recoverables" was a liability of \$370 million and an asset of \$1,287 million as of June 30, 2013 and December 31, 2012, respectively.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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.

Some of the Company’s universal life products contain a no-lapse guarantee provision that is reinsured with an affiliate, UPARC. The reinsurance agreement contains an embedded derivative related to the interest rate risk of the reinsurance contract. Interest sensitivity can result in mark-to-market changes in the value of the underlying contractual guarantees, as well as actual activity related to premium and benefits. See Note 8 for additional information on the agreement with UPARC.

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

Primary Underlying	June 30, 2013			December 31, 2012		
	Notional	Gross Fair Value		Notional	Gross Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
(in thousands)						
Derivatives Designated as Hedge Accounting Instruments:						
Currency/Interest Rate						
Currency Swaps	\$ 171,034	\$ 8,114	\$ (2,195)	\$ 145,174	\$ 4,152	\$ (3,904)
Total Qualifying Hedges	<u>\$ 171,034</u>	<u>\$ 8,114</u>	<u>\$ (2,195)</u>	<u>\$ 145,174</u>	<u>\$ 4,152</u>	<u>\$ (3,904)</u>
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 2,129,400	\$ 71,893	\$ (104,539)	\$ 1,729,400	\$ 109,855	\$ (22,930)
Currency						
Forwards	752	2	-	5,424	48	-
Credit						
Credit Default Swaps	14,275	93	(775)	14,275	614	(894)
Currency/Interest Rate						
Currency Swaps	84,968	1,800	(890)	62,468	1,516	(2,064)
Equity						
Total Return Swaps	336,451	3,725	(1,652)	320,377	762	(6,073)
Equity Options	24,013,015	25,464	(10,392)	24,243,020	70,669	(32,824)
Total Non-Qualifying Hedges	<u>26,578,861</u>	<u>102,977</u>	<u>(118,248)</u>	<u>26,374,964</u>	<u>183,464</u>	<u>(64,785)</u>
Total Derivatives (1)	<u>\$ 26,749,895</u>	<u>\$ 111,091</u>	<u>\$ (120,443)</u>	<u>\$ 26,520,138</u>	<u>\$ 187,616</u>	<u>\$ (68,689)</u>

- (1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was an asset of \$344 million and a liability of \$1,441 million as of June 30, 2013 and December 31, 2012, respectively, included in “Future policy benefits” and “Fixed maturities, available-for-sale.”

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (including bifurcated embedded derivatives), and repurchase and reverse repurchase agreements that are offset in the balance sheet, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the balance sheet.

June 30, 2013					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position (in thousands)	Financial Instruments/ Collateral	Net Amount
Offsetting of Financial Assets:					
Derivatives	\$ 110,818	\$ (120,443)	\$ (9,625)	\$ 0	\$ (9,625)
Securities purchased under agreement to resell	94,856	0	94,856	(94,856)	0
Total Assets	<u>\$ 205,674</u>	<u>\$ (120,443)</u>	<u>\$ 85,231</u>	<u>\$ (94,856)</u>	<u>\$ (9,625)</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 120,443	\$ (120,443)	\$ 0	\$ 0	\$ 0
Securities sold under agreement to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 120,443</u>	<u>\$ (120,443)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
December 31, 2012					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position (in thousands)	Financial Instruments/ Collateral	Net Amount
Offsetting of Financial Assets:					
Derivatives	\$ 187,372	\$ (68,689)	\$ 118,683	\$ 0	\$ 118,683
Securities purchased under agreement to resell	203,437	0	203,437	(203,437)	0
Total Assets	<u>\$ 390,809</u>	<u>\$ (68,689)</u>	<u>\$ 322,120</u>	<u>\$ (203,437)</u>	<u>\$ 118,683</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 68,689	\$ (68,689)	\$ 0	\$ 0	\$ 0
Securities sold under agreement to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 68,689</u>	<u>\$ (68,689)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Company’s Consolidated Financial Statements included in its 2012 Annual Report on Form 10-K.

Cash Flow Hedges

The primary derivative instruments used by the Company in its cash flow hedge accounting relationships are currency swaps. These instruments are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, equity or embedded derivatives in any of its cash flow hedge accounting relationships.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 June 30, 2013				
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Accumulated Other Comprehensive Income (1)
(in thousands)				
Derivatives Designated as Hedging Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ -	\$ 240	\$ 15	\$ (489)
Total cash flow hedges	-	240	15	(489)
Derivatives Not Qualifying as Hedging Instruments:				
Interest Rate	(85,427)	-	-	-
Currency	(11)	-	-	-
Currency/Interest Rate	(296)	-	24	-
Credit	(149)	-	-	-
Equity	(11,115)	-	-	-
Embedded Derivatives	52,683	-	-	-
Total non-qualifying hedges	(44,315)	-	24	-
Total	\$ (44,315)	\$ 240	\$ 39	\$ (489)

Six Months Ended June 30, 2013				
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Accumulated Other Comprehensive Income (1)
(in thousands)				
Derivatives Designated as Hedging Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ -	\$ 468	\$ 70	\$ 5,619
Total cash flow hedges	-	468	70	5,619
Derivatives Not Qualifying as Hedging Instruments:				
Interest Rate	(119,795)	-	-	-
Currency	95	-	-	-
Currency/Interest Rate	255	-	24	-
Credit	(670)	-	-	-
Equity	(65,416)	-	-	-
Embedded Derivatives	156,468	-	-	-
Total non-qualifying hedges	(29,063)	-	24	-
Total	\$ (29,063)	\$ 468	\$ 94	\$ 5,619

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended June 30, 2012				
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Accumulated Other Comprehensive Income (1)
(in thousands)				
Derivatives Designated as Hedging Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ 4	\$ 167	\$ 49	\$ 3,818
Total cash flow hedges	4	167	49	3,818
Derivatives Not Qualifying as Hedging Instruments:				
Interest Rate	48,936	-	-	-
Currency	180	-	-	-
Currency/Interest Rate	2,013	-	31	-
Credit	108	-	-	-
Equity	4,950	-	-	-
Embedded Derivatives	(51,729)	-	-	-
Total non-qualifying hedges	4,458	-	31	-
Total	\$ 4,462	\$ 167	\$ 80	\$ 3,818

Six Months Ended June 30, 2012				
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Accumulated Other Comprehensive Income (1)
(in thousands)				
Derivatives Designated as Hedging Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ 4	\$ 271	\$ 53	\$ 1,878
Total cash flow hedges	4	271	53	1,878
Derivatives Not Qualifying as Hedging Instruments:				
Interest Rate	28,261	-	-	-
Currency	15	-	-	-
Currency/Interest Rate	798	-	22	-
Credit	(567)	-	-	-
Equity	(30,018)	-	-	-
Embedded Derivatives	(12,712)	-	-	-
Total non-qualifying hedges	(14,223)	-	22	-
Total	\$ (14,219)	\$ 271	\$ 75	\$ 1,878

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

For the three and six months ended June 30, 2013 the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company's results of operations and there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging.

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

	(in thousands)
Balance, December 31, 2012	\$ 147
Net deferred gains (losses) on cash flow hedges from January 1 to June 30, 2013	6,140
Amount reclassified into current period earnings	(521)
Balance, June 30, 2013	\$ 5,766

As of June 30, 2013 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

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

variable cash flows are hedged is 20 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 Consolidated Statements of Equity.

Credit Derivatives

The Company no longer has exposure from credit derivatives where it has written credit protection as of June 30, 2013 and December 31, 2012.

The Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company’s investment portfolio. As of June 30, 2013 and December 31, 2012, the Company had \$14 million of outstanding notional amounts, reported at fair value as a liability of less than \$1 million for both periods.

The Company holds certain externally managed investments in the European market which contain embedded derivatives whose fair values 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 investments was \$65 million and \$64 million at June 30, 2013 and December 31, 2012, respectively. The fair value of the embedded derivatives included in “Fixed maturities, available-for-sale” were liabilities of \$23 million at June 30, 2013 and December 31, 2012.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by our counterparty to financial derivative transactions.

The Company has credit risk exposure to an affiliate, Prudential Global Funding, LLC (“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. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

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.

6. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments

The Company has made commitments to fund \$122 million of commercial loans as of June 30, 2013. The Company also made commitments to purchase or fund investments, mostly private fixed maturities, of \$123 million as of June 30, 2013.

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.

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 June 30, 2013, 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 January 2013, a qui tam action on behalf of the State of Florida, *Total Asset Recovery Services v. Met Life Inc., et al., Manulife Financial Corporation, et. al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Insurance Agency, LLC.*, filed in the Circuit Court of Leon County, Florida, was served on Prudential Insurance. The complaint alleges that Prudential Insurance failed to escheat life insurance proceeds to the State of Florida in violation of the Florida False Claims Act and seeks injunctive relief, compensatory damages, civil penalties, treble damages, prejudgment interest, attorneys' fees and costs. In March 2013, the Company filed a motion to dismiss the complaint.

In October 2012, the State of West Virginia, through its State Treasurer, filed a lawsuit, *State of West Virginia ex. Rel. John D. Perdue v. PRUCO Life Insurance Company*, in the Circuit Court of Putnam County, West Virginia. The complaint alleges violations of the West Virginia Uniform Unclaimed Property Fund Act by failing to properly identify and report all unclaimed insurance policy proceeds which should either be paid to beneficiaries or escheated to West Virginia. The complaint seeks to examine the records of the Company to determine compliance with the West Virginia Uniform Unclaimed Property Fund Act, and to assess penalties and costs in an undetermined amount. In April 2013, the Company filed a motion to dismiss the complaint.

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 contractholders where a valid claim has not been made. In February 2012, a Regulatory Settlement Agreement entered into by the Company to resolve a multi-state market conduct examination regarding its adherence to state claim settlement practices became effective upon its acceptance by the insurance departments of 20 states and jurisdictions. The Regulatory Settlement Agreement applies prospectively and requires the Company to adopt and implement additional procedures comparing its records to the SSMDF to identify unclaimed death benefits and prescribes 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 State 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 is conducting an audit of the Company's compliance with New York's unclaimed property laws. In February 2012, the Massachusetts Office of the Attorney General requested information regarding the Company's unclaimed property procedures. In May 2013, the Company entered into a settlement agreement with the Minnesota Department of Commerce, Insurance Division, which requires the Company to take additional steps to identify deceased insureds and contract holders where a valid claim has not been made.

In December 2010, a purported state-wide class action complaint, *Phillips v. Prudential Financial, Inc.*, was filed in state court and removed to the United States District Court for the Southern District of Illinois. The complaint makes allegations under Illinois law, substantially similar to the Garcia cases, on behalf of a class of Illinois residents whose death benefit claims were settled by retained assets accounts. In March 2011, the complaint was amended to drop Prudential Financial as a defendant and add the Company and the Prudential Insurance Company of America as a defendant. The matter is now captioned *Phillips v. Prudential Insurance and Pruco Life Insurance Company*. In November 2011, the complaint was dismissed. In December 2011, plaintiff appealed the dismissal. In May 2013, the United States Court of Appeals for the Seventh Circuit affirmed the dismissal of plaintiff's putative class action complaint.

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 Life Insurance Company of Taiwan Inc., or "Prudential of Taiwan", Prudential Arizona Reinsurance Captive Company, or "PARCC", Universal Prudential Arizona Reinsurance Company, or "UPARC", Pruco Re, Prudential Arizona Reinsurance Term Company, or "PAR TERM" and Prudential Arizona Reinsurance Universal Company or "PAR U", and its parent company, Prudential Insurance, in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential. On January 2, 2013, the Company began to assume Guaranteed Universal Life ("GUL") business from Prudential Insurance in connection with the acquisition of the Hartford Life Business. The GUL business assumed from Prudential Insurance is subsequently retroceded to PAR U. Collectively, reinsurance of this GUL business does not have a material impact on the equity of the Company. Life reinsurance is accomplished primarily through yearly renewable term and coinsurance. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely. The affiliated reinsurance agreements are described further in Note 8.

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.

Reinsurance amounts included in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Premiums direct and assumed	\$ 330,174	\$ 306,111	\$ 645,941	\$ 596,509
Premiums ceded	(316,283)	(286,034)	(618,844)	(565,249)
Premiums	<u>\$ 13,891</u>	<u>\$ 20,077</u>	<u>\$ 27,097</u>	<u>\$ 31,260</u>
Policy charges and fees direct and assumed	\$ 673,756	\$ 458,423	\$ 1,252,625	\$ 886,179
Policy charges and fees ceded	(186,880)	(112,249)	(302,324)	(214,193)
Policy charges and fees	<u>\$ 486,876</u>	<u>\$ 346,174</u>	<u>\$ 950,301</u>	<u>\$ 671,986</u>
Policyholders' benefits direct and assumed	\$ 209,531	\$ 461,834	\$ 615,936	\$ 788,107
Policyholders' benefits ceded	(144,641)	(372,758)	(488,640)	(682,153)
Policyholders' benefits	<u>\$ 64,890</u>	<u>\$ 89,076</u>	<u>\$ 127,296</u>	<u>\$ 105,954</u>
Realized capital gains (losses) net, associated with derivatives	\$ (1,017,294)	\$ 583,617	\$ (1,890,820)	\$ (40,428)

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Realized investment gains and losses include the impact of reinsurance agreements that are accounted for as embedded derivatives. Changes in the fair value of the embedded derivatives are recognized through “Realized investment gains (losses).” The Company has entered into reinsurance agreements to transfer the risk related to certain living benefit options on variable annuities to Pruco Re. The Company also entered into an agreement with UPARC to reinsure a portion of the no-lapse guarantee provision on certain universal life products. See Note 8 for additional information on reinsurance agreements with affiliates. These reinsurance agreements are 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 recoverables included in the Company’s Unaudited Interim Consolidated Statements of Financial Position as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
	(in thousands)	
Domestic life insurance-affiliated	\$ 10,771,105	\$ 4,619,282
Domestic individual annuities-affiliated	527	1,287,660
Domestic life insurance-unaffiliated	534	9,673
Taiwan life insurance-affiliated	1,114,718	1,115,560
	<u>\$ 11,886,884</u>	<u>\$ 7,032,175</u>

Substantially all reinsurance contracts are with affiliates as of June 30, 2013 and December 31, 2012. These contracts are described further in Note 8.

The gross and net amounts of life insurance face amount in force as of June 30, 2013 and 2012 were as follows:

	June 30, 2013	June 30, 2012
	(in thousands)	
Direct gross life insurance face amount in force	\$ 639,324,213	\$ 588,588,790
Assumed gross life insurance face amount in force	41,449,226	-
Reinsurance ceded	(624,334,216)	(535,372,568)
Net life insurance face amount in force	<u>\$ 56,439,223</u>	<u>\$ 53,216,222</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 production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses also include allocations of stock compensation expenses related to a stock option program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock option program was less than \$1 million for both the three months ended June 30, 2013 and 2012; and \$1 million for both the six months ended June 30, 2013 and 2012. The expense charged to the Company for the deferred compensation program was \$2 million and \$1 million for the three months ended June 30, 2013 and 2012, respectively; and \$3 million for both the six months ended June 30, 2013 and 2012.

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 \$5 million and \$4 million for the three months ended June 30, 2013 and 2012, respectively; and \$11 million and \$9 million for the six months ended June 30, 2013 and 2012, respectively.

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Prudential Insurance sponsors voluntary savings plans for its employee's 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 \$2 million for both the three months ended June 30, 2013 and 2012; and \$4 million for both the six months ended June 30, 2013 and 2012.

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.

The Company pays commissions and certain other fees to Prudential Annuities Distributors, Incorporated ("PAD") in consideration for PAD's marketing and underwriting of the Company's products. Commissions and fees are paid by PAD to broker-dealers who sell the Company's products. Commissions and fees paid by the Company to PAD were \$191 million and \$318 million for the three months ended June 30, 2013 and 2012, respectively; and \$478 million and \$617 million for the six months ended June 30, 2013 and 2012, respectively.

Corporate Owned Life Insurance

The Company has sold four Corporate Owned Life Insurance or, "COLI," policies to Prudential Insurance, and one to Prudential Financial. The cash surrender value included in separate accounts for these COLI policies was \$2,391 million at June 30, 2013 and \$2,390 million at December 31, 2012. Fees related to these COLI policies were \$9 million and \$8 million for the three months ended June 30, 2013 and 2012, respectively; and \$18 million and \$17 million for the six months ended June 30, 2013 and 2012, respectively. The Company retains the majority of the mortality risk associated with these COLI policies.

Reinsurance with Affiliates

The Company participates in reinsurance with its affiliates Prudential of Taiwan, PARCC, UPARC, Pruco Re, or PAR TERM and PAR U, and its parent company, Prudential Insurance, in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential. The Company is not relieved of its primary obligation to the policyholder as a result of these agreements.

Reinsurance amounts included in the Company's Unaudited Interim Consolidated Statements of Financial Position as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
	(in thousands)	
Reinsurance recoverables	\$ 11,886,884	\$ 7,032,175
Policy loans	(54,286)	(52,767)
Deferred policy acquisition costs	(1,320,321)	(1,112,195)
Policyholders' account balances	4,355,162	-
Future policy benefits and other policyholder liabilities	1,334,981	-
Other liabilities (reinsurance payables)	569,895	309,478

The reinsurance recoverables by counterparty is broken out below.

	June 30, 2013	December 31, 2012
	(in thousands)	
UPARC	\$ 31,727	\$ 28,655
PAR U	7,573,964	1,633,026
PARCC	2,363,545	2,299,391
PAR TERM	626,180	486,012
Prudential Insurance	175,689	172,198
Pruco Re	527	1,287,660
Prudential of Taiwan	1,114,718	1,115,560
Unaffiliated	534	9,673
Total Reinsurance Recoverables	\$ 11,886,884	\$ 7,032,175

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance amounts, excluding investment gains (losses) on affiliated asset transfers, included in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Premiums	\$ (316,283)	\$ (286,034)	\$ (618,844)	\$ (565,249)
Policy charges and fee income	(128,620)	(112,249)	(244,064)	(214,193)
Net investment income	(381)	(239)	(862)	(578)
Other income	-	4,455	(31,119)	8,029
Interest credited to policyholders' account balance	(14,600)	(11,718)	(28,354)	(23,573)
Policyholders' benefits	(278,436)	(372,758)	(622,435)	(682,153)
Reinsurance expense allowances, net of capitalization and amortization	(60,802)	(46,516)	(114,341)	(90,067)
Realized investment gains (losses) net	(1,017,294)	583,617	(1,890,820)	(40,428)

UPARC

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

Effective July 1, 2011, the agreement between the Company and UPARC to reinsure its Universal Protector policies having no-lapse guarantees was amended for policies with effective dates prior to January 1, 2011. Under the amended agreement, UPARC reinsures an amount equal to 27% of the net amount at risk related to the first \$1 million in face amount plus 30% of the net amount at risk related to the face amount in excess of \$1 million as well as 30% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies. Policies with effective dates January 1, 2011 or later are reinsured with UPARC under the terms described in the previous paragraph. During the first quarter of 2013, the agreement between the Company and UPARC was further amended to revise language relating to the consideration due to the Company.

PAR U

Effective July 1, 2011, the Company, excluding its subsidiaries, entered into an automatic coinsurance agreement with PAR U, an affiliated company, to reinsure an amount equal to 70% of all the risks associated with its Universal Protector policies having no lapse guarantees as well as its Universal Plus policies, with effective dates prior to January 1, 2011. During the first quarter of 2013, the agreement between the Company, excluding its subsidiaries, and PAR U was amended to revise language relating to the consideration due to PAR U.

Effective July 1, 2012, the Company's wholly owned subsidiary, PLNJ, 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 life policies. During the fourth quarter of 2012, the agreement between PLNJ and PAR U was amended to revise language relating to the consideration due to PAR U.

On January 2, 2013 the Company began to assume GUL business from Prudential Insurance in connection with the acquisition of the Hartford Life Business. The GUL business assumed from Prudential Insurance is subsequently retroceded to PAR U. Collectively, reinsurance of the GUL business does not have a material impact on the equity of the company.

PARCC

The Company reinsures 90% of the risk under its term life insurance policies, with effective dates prior to January 1, 2010, through an automatic coinsurance agreement with PARCC.

PAR TERM

The Company reinsures 95% of the risk under its term life insurance policies with effective dates on or after January 1, 2010, through an automatic coinsurance agreement with PAR TERM.

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.

Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

On January 2, 2013, the Company began to assume GUL business from Prudential Insurance in connection with the acquisition of the Hartford Life Business. The GUL business assumed from Prudential Insurance is subsequently retroceded to PAR U. Collectively, reinsurance of this GUL business does not have a material impact on the equity of the Company.

The Company has reinsured a group annuity contract with Prudential Insurance, in consideration for a single premium payment by the Company, providing reinsurance equal to 100% of all payments due under the contract.

Pruco Re

The Company uses reinsurance as part of its risk management and capital management strategies for certain of its optional living benefit features. Starting from 2005, the Company has entered into various automatic coinsurance agreements with Pruco Re, an affiliated company, to reinsure its living benefit features sold on certain of its annuities.

Taiwan branch reinsurance agreement

On January 31, 2001, the Company transferred all of its assets and liabilities associated with its Taiwan branch, including its Taiwan insurance book of business to Prudential of Taiwan, an affiliated company.

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

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

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 \$76 million and \$53 million for the three months ended June 30, 2013 and 2012, respectively, and \$147 million and \$101 million for the six months ended June 30, 2013 and 2012, respectively. These revenues are recorded as “Asset administration fees” in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company participates in a revenue sharing agreement with Prudential Investments LLC, whereby the Company receives fee income from policyholders’ account balances invested in The Prudential Series Fund (“PSF”). Income received from Prudential Investments LLC, related to this agreement was \$3 million for both the three months ended June 30, 2013 and 2012, and \$6 million and \$5 million for the six months ended June 30, 2013 and 2012, respectively. These revenues are recorded as “Asset administration fees” in the Company’s Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

Affiliated Investment Management Expenses

In accordance with an agreement with Prudential Investment Management, Inc. (“PIMI”), the Company pays investment management expenses to PIMI who acts as investment manager to certain Company general account and separate account assets. Investment management expenses paid to PIMI related to this agreement was \$4 million and \$3 million for the three months ended June 30, 2013 and 2012, respectively, and \$7 million for both the six months ended June 30, 2013 and 2012. These expenses are recorded as “Net Investment Income” in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

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Pruco Life Insurance Company

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Affiliated Asset Transfers

From time to time, the Company participates in affiliated asset trades with parent and sister companies. Book and market value differences for trades with a parent and sister are recognized within Additional paid-in-capital (“APIC”) and Realized investment gain (loss), respectively.

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	Additional Paid-in Capital, Net of Tax Increase/(Decrease)	Realized Investment Gain/(Loss)	Derivative Gain/(Loss)
				(in millions)				
Prudential Insurance	Apr-12	Transfer	Fixed Maturities	\$ 3	\$ 2	\$ (1)	\$ -	\$ -
Prudential Financial	Apr-12	Transfer	Fixed Maturities	28	25	(2)	-	-
Prudential Insurance	Jun-12	Transfer	Fixed Maturities	91	74	(11)	-	-
			Fixed Maturities & Commercial					
PAR U	Sep-12	Sale	Mortgages	156	142	-	14	(5)
Prudential Financial	Sep-12	Transfer	Fixed Maturities	46	41	3	-	-
Prudential Insurance	Nov-12	Transfer	Fixed Maturities	110	102	(5)	-	-
Prudential Financial	Nov-12	Transfer	Fixed Maturities	12	12	(1)	-	-
Prudential Insurance	Dec-12	Transfer	Fixed Maturities	59	56	(2)	-	-
Prudential Insurance	Jan-13	Transfer	Fixed Maturities	126	108	(12)	-	-
PAR U	Jan-13	Sale	Fixed Maturities	126	108	-	18	-
			Fixed Maturities & Commercial					
Prudential Insurance	Jan-13	Transfer	Mortgages	4,825	4,825	(1)	-	-
			Fixed Maturities & Commercial					
PAR U	Jan-13	Sale	Mortgages	4,826	4,821	-	5	-
UPARC	Feb-13	Purchase	Fixed Maturities	56	52	-	-	-
PAR U	Feb-13	Sale	Fixed Maturities	132	122	-	10	-
Prudential Insurance	Mar-13	Transfer	Fixed Maturities	47	44	(2)	-	-

Debt Agreements

The Company is authorized to borrow funds up to \$2.2 billion from affiliates to meet its capital and other funding needs.

The following table provides the breakout of the Company’s short-term and long-term debt with affiliates:

Affiliate	Date Issued	Amount of Notes - June 30, 2013	Amount of Notes - December 31, 2012	Interest Rate	Date of Maturity
			(in thousands)		
PFI	11/15/2010	\$ 66,000	\$ 66,000	3.01%	11/13/2015
PFI	6/20/2011	150,000	200,000	1.64% - 3.17%	6/2013 - 6/2016
PFI	12/15/2011	212,000	212,000	2.65% - 3.61%	12/2013 - 12/2016
PFI	12/16/2011	44,000	44,000	2.65% - 3.61%	12/2013 - 12/2016
PFI	12/20/2012	267,000	267,000	1.37%	12/15/2015
Prudential Insurance	12/20/2010	204,000	204,000	3.47%	12/21/2015
Washington Street Investment	6/20/2012	316,000	395,000	1.15% - 3.02%	6/2013 - 6/2017
Washington Street Investment	12/17/2012	330,000	330,000	0.95% - 1.87%	12/2013 - 12/2017
Washington Street Investment	12/17/2012	65,000	65,000	0.95% - 1.87%	12/2013 - 12/2017
Pru Funding, LLC	6/21/2013	15,000	-	0.20%	7/3/2013
Pru Funding, LLC	6/20/2013	53,000	-	0.20%	7/11/2013
Pru Funding, LLC	6/25/2013	3,000	-	0.20%	7/10/2013
Total Loans Payable to Affiliates		\$ 1,725,000	\$ 1,783,000		

The total interest expense to the Company related to loans payable to affiliates was \$10 million for the three months ended June 30, 2013 and 2012, respectively, and \$20 million for the six months ended June 30, 2013 and 2012, respectively.

Contributed Capital and Dividends

Subsequent to the balance sheet date, the Company paid a dividend in the amount of \$155 million to Prudential Insurance.

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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 June 30, 2013, compared with December 31, 2012, and its consolidated results of operations for the three and six months ended June 30, 2013 and 2012. 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, and the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Consolidated 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 affiliated and unaffiliated distributors in the United States. The Company also had marketed individual life insurance through its branch office in Taiwan. All insurance activity of the Taiwan branch has been ceded to an affiliate and the related assets and liabilities continue to be reflected in the Company's statements of financial position.

Revenues and Expenses

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

Effective February 25, 2013, the Advanced Series Trust ("AST") adopted a Rule 12b-1 Plan under the Investment Company Act of 1940 with respect to most of the AST portfolios that are primarily offered through the Company's variable annuity investment options. Under the Rule 12b-1 Plan, AST pays an affiliate of the Company for distribution and administrative services. Prior to the adoption of the 12b-1 Plan, the Company received an administrative service fee from AST and incurred expenses associated with administration services provided. While we expect the level of revenue and expenses of the Company in 2013 to decline relative to 2012 due to the elimination of the administrative services fee and related expenses, we do not expect a material impact to net income related to AST's adoption of the Rule 12b-1 Plan.

Profitability

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

See "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of risks that have materially affected and may affect in the future the Company's business, results of operations or financial condition, or cause the Company's actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company.

Products

Individual Annuities

The Company offers a wide array of annuities, including (1) variable annuities that are registered with the United States Securities and Exchange Commission (the "SEC"), including fixed interest rate allocation options, subject to a market value adjustment, 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.

We offer variable annuities that provide our contractholders with tax-deferred asset accumulation together with a base death benefit and a suite of optional guaranteed death and living benefits. The benefit features contractually guarantee the contractholder a return of no less than (1) total deposits made to the contract less any partial withdrawals ("return of net deposits"), (2) total deposits made to the contract less any partial withdrawals plus a minimum return ("minimum return"), and/or (3) the highest contract value on a specified date minus any withdrawals ("contract value"). We currently offer guarantees that are payable in the event of death, and withdrawal and income living benefits payable during specified periods. The majority of our current optional living benefits guarantees include, among other features, the ability to make withdrawals based on the highest daily contract value plus a minimum return, credited for a period of time. This guaranteed contract value is a notional amount 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. The majority of our current optional living benefits can also be purchased with a companion optional death benefit, also based on a highest daily contract value. Certain inforce contracts include guaranteed benefits which are not currently offered, such as annuitization benefits and benefits payable at specified dates during the accumulation period. Late in the first quarter of 2013, we launched Prudential Defined Income Variable Annuity, or PDI, to complement the variable annuity products we offer with the highest daily benefit. PDI also provides for guaranteed lifetime contractholder withdrawal payments, but restricts contractholder asset allocation to a single bond sub-account within the separate accounts.

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Excluding our new PDI product, the majority of our variable annuities generally provide our contractholders with the opportunity to allocate purchase payments to sub-accounts that invest in underlying proprietary and non-proprietary mutual funds, frequently under asset allocation programs, and fixed-rate accounts. 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.

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

Our risk management strategy helps to limit our exposure to certain of these risks primarily through a combination of product design elements, our living benefits hedging program and affiliated reinsurance arrangements. The product design elements we utilize for certain products include, among others, asset allocation restrictions, minimum issuance age requirements, certain limitations on the amount of subsequent contractholder deposits and an asset transfer feature. The objective of the asset transfer feature, included in the majority of our variable annuity contracts with optional living benefits features and all new contracts sold with our highest daily living benefits feature, is to help mitigate our exposure to equity market risk and market volatility by transferring assets between certain variable investment sub-accounts selected by the annuity contractholder and investments that are expected to be more stable (e.g., a separate account bond fund sub-account portfolio or a fixed-rate account in the general account). The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. This occurs at the contractholder level, rather than at the fund level, which we believe enhances our risk mitigation. As of June 30, 2013, approximately \$70.8 billion or 89% of total variable annuity account values contain a living benefit feature, compared to approximately \$64.7 billion or 89% as of December 31, 2012. As of June 30, 2013, approximately \$66.3 billion or 94% of variable annuity account values with living benefit features included an asset transfer feature in the product design, compared to approximately \$60.3 billion or 93% as of December 31, 2012.

As mentioned above, in addition to our asset transfer feature, we also manage certain risks associated with our variable annuity products through our living benefits hedging programs and affiliated reinsurance agreements. We reinsure the majority of our variable annuity living benefit guarantees to an affiliated reinsurance company, Pruco Reinsurance, Ltd. ("Pruco Re"). The living benefits hedging program is primarily executed within Pruco Re to manage capital markets risk associated with the reinsured optional living benefit guarantees. The program is also executed within the Company related to certain non-reinsured optional living benefit guarantees. This program represents a balance among three objectives that seek to: 1) provide severe scenario protection, 2) minimize net income volatility associated with an internally-defined hedge target, and 3) maintain capital efficiency. Through the hedge program, derivatives are purchased that seek to replicate the net change in an internally-defined hedge target. In addition to mitigating capital markets risk and income statement volatility, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path, recognizing that, under the terms of the contracts, we do not expect to begin substantial payment of such claims until at least five years in the future.

Term Life Insurance

The Company offers a variety of term life insurance products which represent 63% of our net individual life insurance in force at June 30, 2013, 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 24% of our net individual life insurance in force at June 30, 2013. 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. In a portion of the affluent market, we offer a private placement variable universal life product, which also utilizes investment options consisting of equity and fixed income funds. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance.

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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 13% of our net individual life insurance in force at June 30, 2013. 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 two distinct living benefits options. Living Needs Benefit Rider 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. BenefitAccess Rider provides the ability to accelerate up to the full amount of the policy's death benefit in the event the insured becomes chronically ill or terminally ill. Receiving accelerated benefits under the rider will reduce, and in some cases, eliminate the policy's death benefit payable to the beneficiary. Any remaining death benefit is paid to the beneficiary at time of the insured's death.

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 Unaudited Interim Consolidated 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 ("DAC") 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.

The near-term future equity rate of return assumption used in evaluating DAC and deferred sales inducements for our variable annuity and variable life insurance products is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns over a period of time and initially adjust future projected equity 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 of 13%, we use our maximum future rate of return.

The weighted average rate of return assumptions for these businesses consider many factors specific to each business, including asset durations, asset allocations and other factors. We update the near term equity 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 equity expected rates of return. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods' gross profits. The new required rate of amortization is also applied prospectively to future gross profits in calculating amortization in future periods. As of June 30, 2013, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 6.7% near-term mean reversion equity rate of return.

Additional information on our policies for our critical accounting estimates listed above may be found in our Annual Report on Form 10-K for the year ended December 31, 2012, under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies & Pronouncements—Application of Critical Accounting Estimates."

Adoption of New Accounting Pronouncements

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

Changes in Financial Position

June 30, 2013 versus December 31, 2012

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Total assets increased \$13,446 million, from \$102,222 million at December 31, 2012 to \$115,668 million at June 30, 2013.

Separate account assets increased \$7,756 million, from \$80,887 million at December 31, 2012 to \$88,643 million at June 30, 2013, primarily driven by market appreciation and positive net flows from variable annuity new business sales.

Reinsurance recoverables increased \$4,855 million from \$7,032 million at December 31, 2012 to \$11,887 million at June 30, 2013. The increase in reinsurance recoverables was primarily driven by liabilities ceded arising from coinsurance of the Hartford Life GUL business as well as higher term reserves and universal life policyholders' account balances ceded under affiliated reinsurance agreements due to business growth. Partially offsetting this is a decrease related to the mark-to-market of the reinsurance recoverable related to the reinsured liability for variable annuity living benefits accounted for as embedded derivatives, primarily resulting from a decrease in the present value of future expected benefit payments driven by higher interest rates and changes in equity markets. As of June 30, 2013 the reinsurance related to our variable annuity living benefits is in a liability position classified within "Other Liabilities". See Note 8 to the Unaudited Interim Consolidated Financial Statements for additional information regarding affiliated reinsurance transactions.

Deferred policy acquisition and deferred sales inducement costs increased \$874 million from \$4,467 million at December 31, 2012 to \$5,341 million at June 30, 2013. The increase is primarily driven by the capitalization of commissions related to variable annuity new business sales and write-ups primarily associated with the impact of the mark-to-market of the reinsured liability for living benefits and related hedge positions.

Total investments increased \$108 million from \$9,092 million at December 31, 2012 to \$9,200 million at June 30, 2013. The increase in total investments was primarily driven by continued universal life and term business growth, partially offset by unfavorable mark-to-market losses on bonds and interest rate derivatives due to rising interest rates.

Partially offsetting these increases was a decrease in cash and cash equivalents of \$273 million from \$412 million at December 31, 2012 to \$139 million at June 30, 2013.

Total liabilities increased \$12,891 million, from \$98,706 million at December 31, 2012 to \$111,687 million at June 30, 2013.

Separate account liabilities increased \$7,756 million, offsetting the increase in separate account assets described above.

Policyholder account balances increased \$5,075 million, from \$8,557 million at December 31, 2012 to \$13,632 million at June 30, 2013, primarily driven by liabilities assumed related to coinsurance of the Hartford Life GUL business and continued universal life business growth.

Other liabilities increased \$180 million, from \$727 million at December 31, 2012 to \$907 million at June 30, 2013, primarily driven by the recognition of a liability resulting from the mark-to-market of the reinsurance related to the reinsured liability for variable annuity living benefit embedded derivatives due to higher interest rates and changes in equity markets.

Partially offsetting these increases was a decrease in future policy benefits and other policyholder liabilities of \$132 million, from \$6,697 million at December 31, 2012 to \$6,565 million at June 30, 2013, primarily driven by mark-to-market decreases to the liability for living benefit embedded derivatives, as described above. Partially offsetting this are liabilities assumed related to coinsurance of the Hartford Life GUL business and an increase in reserves supporting term business arising from business growth.

	Three Months Ended June 30,	
	2013	2012
	(in thousands)	
Operating results:		
Revenues:		
Annuity Products	\$ 451,032	\$ 367,441
Life Products and Other	205,282	193,762
	<u>\$ 656,314</u>	<u>\$ 561,203</u>
Benefits and expenses:		
Annuity Products	\$ 40,674	\$ 914,571
Life Products and Other	189,227	139,526
	<u>\$ 229,901</u>	<u>\$ 1,054,097</u>
Income (loss) from Operations before Income Taxes		
Annuity Products	\$ 410,358	\$ (547,130)
Life Products and Other	16,055	54,236
	<u>\$ 426,413</u>	<u>\$ (492,894)</u>

Annuity Products

Income (Loss) from Operations before Income Taxes

2013 to 2012 Three Month Comparison. Income from operations before income taxes increased \$957 million from a loss of \$547 million in the second quarter of 2012 to income of \$410 million in the second quarter of 2013. Results for both periods include the impact on the amortization of DAC and DSI, and on reserves for the GMDB and GMIB features, of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions and of changes in the estimated profitability of the business, as discussed in more detail below.

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Excluding these items, income (loss) from operations before income taxes increased \$52 million, primarily driven by higher fee income, net of distribution costs, related to higher average variable annuity account values invested in separate accounts due to market appreciation and positive net flows from new business sales.

The following table reflects the impact on the amortization of DAC/DSI and on the GMDB/GMIB reserves of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions, and of changes in the estimated profitability of the business.

	Three months ended June 30,	
	2013	2012
	(1) (in millions)	
Impact of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions	\$ 271	\$ (568)
Impacts of changes in the estimated profitability of the business	15	(51)
Total	<u>\$ 286</u>	<u>\$ (619)</u>

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of DAC/DSI and for GMDB/GMIB reserve (increases) or decreases, respectively.

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 Consolidated Financial Statements. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces an amortization pattern representative of the economics of the products.

The impact of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions 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. The favorable variance was primarily driven by NPR losses in the reinsurance affiliate in 2013 due to a decrease in the base embedded derivative liability primarily driven by rising interest rates. The NPR losses in 2013 resulted in a DAC/DSI amortization benefit compared to NPR gains in 2012 which resulted in DAC/DSI amortization expense. The NPR gains in 2012 were primarily driven by an increase in the base embedded derivative liability driven by lower interest rates and unfavorable equity market conditions.

The impacts of changes in the estimated profitability of the business include adjustments to the reserves for the GMDB and GMIB features of our variable annuity products and to the amortization of DAC/DSI. These adjustments resulted in a net benefit of \$15 million and a net charge of \$51 million in the second quarter of 2013 and 2012, respectively. The net benefit in the second quarter of 2013 primarily reflects the impact of higher interest rates which increased future expected fixed income returns on contractholder accounts and lowered future expected claims relative to our assumptions. The net charge in the second quarter of 2012 primarily reflects negative equity market performance on contractholder accounts relative to our assumptions. For weighted average rate of return assumptions as of June 30, 2013 see “—Application of Critical Accounting Estimates” above.

Revenues, Benefits and Expenses

2013 to 2012 Three Month Comparison. Revenues increased \$84 million. This increase was primarily driven by an increase of \$117 million in policy charges and fee income, consisting primarily of mortality and expense and other insurance charges assessed on policyholders’ fund balances driven by higher average separate account asset balances due to positive net flows from new business sales and market appreciation partially offset by \$31 million increase in realized investment losses primarily due to an unfavorable variance in the mark to market related to embedded derivatives associated with our non-reinsured living benefit features and related hedges.

Benefits and expenses decreased \$873 million. This decrease was primarily driven by a favorable variance of \$649 million in DAC amortization and \$192 million in interest credited to policyholders’ account balances, which includes DSI amortization. Lower DAC and DSI amortization is related to the impact of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions and the impact of changes in the estimated profitability of the business, as discussed above. Also contributing to the decrease was a decrease in policyholders benefits, including changes in reserves, of \$33 million, primarily due to adjustments to the GMDB and GMIB reserves related to the impact of changes in the estimated profitability of the business, as discussed above.

Life Products and Other

Income from Operations before Income Taxes

2013 to 2012 Three Month Comparison. Income from operations before income taxes decreased \$38 million. The decrease includes mark to market losses on derivative investments, higher general and administrative expenses, net of capitalization, reflecting higher distribution costs as a result of increased sales as well as higher compensation expenses, continued variable life inforce run-off, and the impact of the third quarter 2012 coinsurance agreement between PLNJ and PAR U. These decreases were partially offset by the impact of universal life product business growth. See Note 8 to the Unaudited Interim Consolidated Financial Statements for more information on related party transactions.

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Revenues, Benefits and Expenses

2013 to 2012 Three Month Comparison. Revenues increased \$12 million. The increase includes the impact of universal life product business growth, partially offset by mark to market losses on derivative investments,, the impact of the third quarter 2012 coinsurance agreement between PLNJ and PAR U, and continued variable life inforce run-off. See Note 8 to the Unaudited Interim Consolidated Financial Statements for more information on related party transactions.

Benefits and expenses increased \$50 million including higher general and administrative expenses, net of capitalization, reflecting higher distribution costs as a result of increased sales as well as higher compensation expenses, higher death benefits, and the impact of universal life business growth which drove growth in interest credited due to higher policyholder account balances and higher amortization of deferred policy acquisition costs.

Results of Operations

	Six Months Ended June 30,	
	2013	2012
	(in thousands)	
Operating results:		
Revenues:		
Annuity Products	\$ 893,120	\$ 707,976
Life Products and Other	453,527	351,301
	\$ 1,346,647	\$ 1,059,277
Benefits and expenses:		
Annuity Products	\$ 109,896	\$ 631,336
Life Products and Other	355,449	282,024
	\$ 465,345	\$ 913,360
Income (loss) from Operations before Income Taxes		
Annuity Products	\$ 783,224	\$ 76,640
Life Products and Other	98,078	69,277
	\$ 881,302	\$ 145,917

Annuity Products

Income (Loss) from Operations before Income Taxes

2013 to 2012 Six Month Comparison. Income from operations before income taxes increased \$707 million from \$77 million for the first six months of 2012 to \$783 million in the first six months of 2013. Results for both periods include the impact on the amortization of DAC and DSI, and on reserves for the GMDB and GMIB features, of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions and of changes in the estimated profitability of the business, as discussed in more detail below.

Excluding these items, income (loss) from operations before income taxes increased \$108 million, primarily driven by higher fee income, net of distribution costs, related to higher average variable annuity account values invested in separate accounts due to market appreciation and positive net flows from new business sales.

The following table reflects the impact on the amortization of DAC/DSI and on the GMDB/GMIB reserves of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions, and of changes in the estimated profitability of the business.

	Six months ended June 30,	
	2013	2012
	(in millions)	
Impact of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions	\$ 525	\$ (85)
Impacts of changes in the estimated profitability of the business	17	28
Total	\$ 542	\$ (57)

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of DAC/DSI and for GMDB/GMIB reserve (increases) or decreases, respectively.

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 Consolidated Financial Statements. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces an amortization pattern representative of the economics of the products.

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The impact of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions 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. The favorable variance was primarily driven by NPR losses in the reinsurance affiliate in 2013 due to a decrease in the base embedded derivative liability primarily driven by rising interest rates. The NPR losses in 2013 resulted in a DAC/DSI amortization benefit compared to NPR gains in 2012 which resulted in DAC/DSI amortization expense. The NPR gains in 2012 were primarily driven by an increase in the base embedded derivative liability driven by lower interest rates and unfavorable equity market conditions.

The impacts of changes in the estimated profitability of the business include adjustments to the reserves for the GMDB and GMIB features of our variable annuity products and to the amortization of DAC/DSI. These adjustments resulted in net benefits of \$17 million and \$28 million in the first six months of 2013 and 2012, respectively. The net benefit in the first six months of 2013 primarily reflects the impact of higher interest rates in the second quarter, as discussed above, and positive equity market performance on contractholder accounts in the first quarter relative to our assumptions. The net benefit in the first six months of 2012 primarily reflects the impact of overall positive equity market performance on contractholder accounts relative to our assumptions. For weighted average rate of return assumptions as of June 30, 2013 see “—Application of Critical Accounting Estimates” above.

Revenues, Benefits and Expenses

2013 to 2012 Six Month Comparison. Revenues increased \$185 million. This increase was primarily driven by an increase of \$236 million in policy charges and fee income, consisting primarily of mortality and expense and other insurance charges assessed on policyholders’ fund balances driven by higher average separate account asset balances due to positive net flows from new business sales and market appreciation. Partially offset by a \$44 million increase in realized investment losses due to an unfavorable variance in the mark to market related to embedded derivatives associated with our non-reinsured living benefit features and related hedges.

Benefits and expenses decreased \$521 million. This decrease was primarily driven by a favorable variance of \$420 million in DAC amortization and \$122 million in interest credited to policyholders’ account balances, which includes DSI amortization. Lower DAC and DSI amortization is related to the impact of the mark-to-market of the liability for living benefit embedded derivatives and related hedge positions and the impact of changes in the estimated profitability of the business, as discussed above. Partially offsetting the decrease was an increase in general and administrative expenses, net of capitalization, of \$15 million primarily driven by 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

2013 to 2012 Six Month Comparison. Income from operations before income taxes increased \$29 million. The increase includes a realized investment gain of \$57 million on a portion of an embedded derivative recaptured from an amendment to the reinsurance agreement of no-lapse guarantees with UPARC in the first quarter of 2013. This was partially offset by a \$24 million loss from an amendment to the 2011 coinsurance agreement with PAR U also in the first quarter of 2013. Absent these impacts, income from operations before taxes decreased \$4 million. The decrease includes higher general and administrative expenses, net of capitalization, reflecting higher distribution costs as a result of increased sales as well as higher compensation expenses, mark to market losses on derivative investments, the impact of the third quarter 2012 coinsurance agreement between PLNJ and PAR U, and the continued impact of variable life inforce run-off. These decreases were partially offset by the impact of universal life and term product business growth and a \$23 million realized investment gain related to asset transfers to affiliates.

Revenues, Benefits and Expenses

2013 to 2012 Six Month Comparison. Revenues increased \$102 million. The increase includes a net benefit of \$33 million related to the amendments to the reinsurance agreements discussed above. Absent these impacts, revenues increased \$70 million. The increase includes the impact of universal life and term product business growth and realized investment gains of \$23 million related to asset transfers to affiliates. These increases were partially offset by mark to market losses on derivative investments, the impact of the third quarter 2012 coinsurance agreement between PLNJ and PAR U, and continued variable life inforce run-off. See Note 8 to the Unaudited Interim Consolidated Financial Statements for more information on related party transactions.

Benefits and expenses increased \$73 million including higher general and administrative expenses, net of capitalization, reflecting higher distribution costs as a result of increased sales as well as higher compensation expenses, higher death benefits, the impact of universal life business growth which drove growth in interest credited due to higher policyholder account balances and higher amortization of deferred policy acquisition costs.

Income Taxes

The income tax provision amounted to an expense of \$114 million and a benefit of \$140 million for the three months ended June 30, 2013 and 2012, respectively. The income tax provision amounted to an expense of \$222 million and \$38 million for the six months ended June 30, 2013 and 2012, respectively. The increases in income tax expense were primarily driven by the increases in pre-tax income.

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

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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 February 2014, unless extended. The statute of limitations for the 2007 through 2009 tax years will expire in December 2014, unless extended. Tax years 2010 through 2012 are still open for IRS examination.

The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

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 2012, 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. In May 2010, the IRS issued an Industry Director Directive (“IDD”) confirming that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. For the last several years, the revenue proposals included in the Obama Administration’s budgets included a proposal that would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company’s consolidated net income. These activities had no impact on the Company’s results for 2012, or for the six months ended June 30, 2013.

For tax years 2007 through 2012, 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

This section supplements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included in our Annual Report on Form 10-K for the year ended December 31, 2012.

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 operations 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 available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and the Company, including reasonably foreseeable stress scenarios. We have a capital management framework in place that facilitates the allocation of capital and approval of capital uses, and we forecast capital sources and uses on a quarterly basis. Furthermore, we employ a “Capital Protection Framework” to ensure the availability of sufficient capital resources to maintain adequate capitalization and competitive risk-based capital ratios under reasonably foreseeable stress scenarios.

The Financial Stability Oversight Council has made a proposed determination that Prudential Financial should be subject to stricter prudential regulatory standards and supervision by the Board of Governors of the Federal Reserve System under the Dodd-Frank Act. This stricter prudential regulation may include new capital and liquidity standards, including requirements regarding risk-based capital, leverage, liquidity, stress-testing and other matters. In addition, the Financial Stability Board, consisting of representatives of national financial authorities of the G20 nations, identified Prudential Financial as a global systemically important insurer. For information on recent actions and the potential impact of the Dodd-Frank Act, see “Business—Regulation” and “Risk Factors” included in our 2012 Annual Report on Form 10-K for the year ended December 31, 2012 and updated “Risk Factors” included in this Quarterly Report on Form 10-Q.

Capital

The Risk Based Capital, or RBC, ratio is a primary measure of the capital adequacy of the Company. 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

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insurer's products and liabilities, interest rate risks and general business risks. RBC is calculated based on statutory financial statements and risk formulas consistent with NAIC practices. The RBC ratio calculations are intended to assist insurance regulators in measuring the insurer's solvency and ability to pay future claims. 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, but is available to the public. The RBC ratio is an annual calculation, however, as of June 30, 2013 we estimate that the Company's RBC ratio exceeds the minimum level required by applicable insurance regulations.

The regulatory capital level 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 the 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 or for other reasons could result in higher required statutory capital levels. The regulatory capital level of the Company is also affected by statutory accounting rules which are subject to change by insurance regulators.

We employ a "Capital Protection Framework" to ensure sufficient capital resources are available to maintain adequate capitalization and a competitive risk based capital ratio, under reasonably foreseeable stress scenarios. The Capital Protection Framework incorporates the potential impacts from market related stresses, including equity markets, interest rates, and credit losses. Potential sources of capital include on-balance sheet capital, 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 a competitive RBC ratio under reasonably foreseeable stress scenarios.

Prudential Financial uses captive reinsurance companies to more effectively manage our capital on an economic basis and to enable the aggregation and transfer of risks. To support the risks they assume, the captives are capitalized to a level consistent with our "AA" financial strength rating targets. All of the captive reinsurance companies are wholly-owned subsidiaries and are located domestically, typically in the state of domicile of the direct writing insurance subsidiary that cedes the majority of business to the captive. In addition to state insurance regulation, the captives are subject to internal policies governing their activities. In the normal course of business, Prudential Financial provides support to these captives through net worth maintenance agreements and/or guarantees of certain of the captives' obligations. Recently, the NAIC and the New York State Department of Financial Services have examined life insurers' use of captive reinsurance companies. We cannot predict what, if any, changes may result from these reviews. If applicable insurance laws are changed in a way that impairs the use of captive reinsurance companies, our ability to write certain products and efficiently manage their associated risks could be adversely affected and/or we may need to increase prices on certain products or find alternate financing sources, which could adversely affect our competitiveness, capital and financial position and results of operations. For further information on our specific uses of captive reinsurance companies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included in our Annual Report on Form 10-K for the year ended December 31, 2012.

We manage certain risks associated with our variable annuity products through arrangements with an affiliated domestic captive reinsurance company. We reinsure variable annuity living benefit guarantees to an affiliated domestic captive reinsurance company, Pruco Re. This enables Prudential Financial to execute its living benefit hedging program within one legal entity, Pruco Re. Since Pruco Re is domiciled and subject to regulation in the State of Arizona, the Company is able to claim statutory reinsurance reserve credit for business ceded to Pruco Re without any need for Pruco Re to collateralize its obligations under the reinsurance arrangement. However, for business ceded to Pruco Re by PLNJ, Pruco Re must collateralize its obligations under the reinsurance arrangement in order for PLNJ to claim a reinsurance reserve credit for its business ceded. This requirement is satisfied by Pruco Re depositing assets into statutory reserve credit trusts.

Liquidity

There have been no material changes to the liquidity position of the Company since December 31, 2012. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for the Company.

The principal sources of the Company's cash 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, 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 use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims.

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 each 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.

Liquid assets include cash and cash equivalents, short-term investments and fixed maturities that are not designated as held-to-maturity and public equity securities. As of June 30, 2013 and December 31, 2012, the Company had liquid assets of \$6,578 million and \$6,676 million, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$213 million and \$524 million as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013, \$5,914 million, or 93%, of the fixed maturity investments in company general account portfolios were rated high or highest quality based on NAIC or equivalent rating. The remaining \$415 million, or 7%, of these fixed maturity investments were rated other than high or highest quality.

Prudential Financial and Prudential Funding, LLC, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, borrow funds in the capital markets primarily through the direct issuance of commercial paper. The borrowings serve 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.

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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, or the "Exchange Act", as of June 30, 2013. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2013, 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 June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

OTHER INFORMATION

PART II

Item 1. Legal Proceedings

See Note 6 to the Unaudited Interim Consolidated Financial Statements under "—Litigation and Regulatory Matters" for a description of material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

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, 2012. 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 business 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, 2012.

The risk factor contained in our 2012 Form 10-K titled "The Dodd-Frank Wall Street Reform and Consumer Protection Act has and will subject us to substantial additional federal regulation and we cannot predict the effect on our business, results of operations, cash flows or financial condition" is hereby updated to note that on June 3, 2013, Prudential Financial received notice of a proposed determination by the Financial Stability Oversight Council (the "Council") that it should be subject to stricter prudential regulatory standards and supervision by the Board of Governors of the Federal Reserve System (as a "Covered Company") pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 2, 2013, Prudential Financial provided notice to the Council requesting a nonpublic written and oral evidentiary hearing before the Council to contest the Council's proposed determination. The written and oral evidentiary hearing was held and completed as of July 30, 2013. According to the regulations, the Council will make a final determination on the Prudential Financial's status as a Covered Company within 60 days after the hearing.

On July 18, 2013, the Financial Stability Board, consisting of representatives of national financial authorities of the G20 nations, identified Prudential Financial as a global systemically important insurer ("G-SII").

For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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
By: /s/ Yanela C. Frias
Name: Yanela C. Frias
Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: August 13, 2013

CERTIFICATIONS

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

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

Date: August 13, 2013

/s/ Robert F. O'Donnell
Robert F. O'Donnell
President and Chief Executive Officer

CERTIFICATIONS

I, Yanela C. Frias, certify that:

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

Date: August 13, 2013

/s/ Yanela C. Frias

Yanela C. Frias

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 (the "Company"), hereby certify that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (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: August 13, 2013

/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. § 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, Yanela C. Frias, Vice President and Chief Financial Officer of Pruco Life Insurance Company (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (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: August 13, 2013

/s/ Yanela C. Frias

Name: Yanela C. Frias

Title: Vice President and Chief Financial Officer

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