
**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 March 31, 2014

OR

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

For the Transition Period from to

Commission file number 333-18053

Pruco Life Insurance Company of New Jersey

(Exact name of Registrant as specified in its charter)

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

22-2426091
(IRS Employer Identification No.)

213 Washington Street, Newark, New Jersey 07102

(Address of principal executive offices) (Zip Code)

(973) 802-6000

(Registrant's Telephone Number, including area code)

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

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

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

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

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

As of May 14, 2014, 400,000 shares of the registrant's Common Stock (par value \$5) were outstanding.

**Pruco Life Insurance Company of New Jersey meets the conditions set
forth in General Instruction (H) (1) (a) and (b) on Form 10-Q and
is therefore filing this Form 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 of New Jersey. There can be no assurance that future developments affecting Pruco Life Insurance Company of New Jersey will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement, with regard to variable annuity or other product guarantees; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, 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 of New Jersey does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" herein and in the Annual Report on Form 10-K for the year ended December 31, 2013 for discussion of certain risks relating to our business and investment in our securities.

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Part I—Financial Information
Item 1. Financial Statements

Pruco Life Insurance Company of New Jersey
Unaudited Interim Statements of Financial Position
As of March 31, 2014 and December 31, 2013 (in thousands, except share amounts)

	March 31, 2014	December 31, 2013
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014—\$918,352; 2013—\$889,548)	\$ 969,153	\$ 927,341
Equity securities, available-for-sale, at fair value (cost: 2014—\$4,091; 2013—\$91)	4,252	116
Policy loans	177,586	176,885
Short-term investments	1,637	5,180
Commercial mortgage and other loans	287,885	292,532
Other long-term investments	39,025	37,505
Total investments	1,479,538	1,439,559
Cash and cash equivalents	59,060	40,641
Deferred policy acquisition costs	443,894	439,315
Accrued investment income	14,334	15,024
Reinsurance recoverables	1,056,474	999,240
Receivables from parents and affiliates	38,407	34,479
Deferred sales inducements	86,519	88,350
Other assets	13,971	8,264
Separate account assets	10,590,205	10,235,426
TOTAL ASSETS	\$ 13,782,402	\$ 13,300,298
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances	\$ 1,373,356	\$ 1,360,664
Future policy benefits and other policyholder liabilities	914,521	772,537
Cash collateral for loaned securities	4,426	4,081
Income taxes	32,159	23,467
Short-term debt to affiliates	24,000	24,000
Long-term debt to affiliates	93,000	93,000
Payables to parent and affiliates	5,211	4,607
Other liabilities	79,206	132,083
Separate account liabilities	10,590,205	10,235,426
TOTAL LIABILITIES	13,116,084	12,649,865
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)		
EQUITY		
Common stock, (\$5 par value; 400,000 shares, authorized, issued and outstanding)	2,000	2,000
Additional paid-in capital	211,147	211,147
Retained earnings	428,613	420,185
Accumulated other comprehensive income	24,558	17,101
TOTAL EQUITY	666,318	650,433
TOTAL LIABILITIES AND EQUITY	\$ 13,782,402	\$ 13,300,298

See Notes to Unaudited Interim Financial Statements

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PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Unaudited Interim Statements of Operations and Comprehensive Income (Loss)
Three Months Ended March 31, 2014 and 2013 (in thousands)

	Three Months Ended	
	March 31,	
	2014	2013
REVENUES		
Premiums	\$ 2,702	\$ 2,509
Policy charges and fee income	46,690	37,193
Net investment income	16,756	17,032
Asset administration fees	9,194	8,335
Other income	758	925
Realized investment gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	-	-
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income	-	-
Other realized investment gains (losses), net	(16,563)	14,977
Total realized investment gains (losses), net	(16,563)	14,977
TOTAL REVENUES	59,537	80,971
BENEFITS AND EXPENSES		
Policyholders' benefits	8,828	8,608
Interest credited to policyholders' account balances	10,034	5,138
Amortization of deferred policy acquisition costs	5,698	(8,771)
General, administrative and other expenses	24,228	16,458
TOTAL BENEFITS AND EXPENSES	48,788	21,433
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	10,749	59,538
Income Taxes:		
Total income tax expense (benefit)	2,321	16,206
NET INCOME (LOSS)	\$ 8,428	\$ 43,332
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	-	(35)
Net unrealized investment gains (losses):		
Unrealized investment gains (losses) for the period	11,744	(4,662)
Reclassification adjustment for (gains) losses included in net income	(272)	(1,953)
Net unrealized investment gains (losses)	11,472	(6,615)
Other comprehensive income (loss), before tax	11,472	(6,650)
Less: Income tax expense (benefit) related to:		
Foreign currency translation adjustments	-	(12)
Net unrealized investment gains (losses)	4,015	(2,315)
Total	4,015	(2,327)
Other comprehensive income (loss), net of tax:	7,457	(4,323)
COMPREHENSIVE INCOME (LOSS)	\$ 15,885	\$ 39,009

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

**Unaudited Interim Statements of Equity
Three Months Ended March 31, 2014 and 2013 (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, 2013	\$ 2,000	\$ 211,147	\$ 420,185	\$ 17,101	\$ 650,433
Comprehensive income (loss):					
Net income (loss)	-	-	8,428	-	8,428
Other comprehensive income (loss), net of tax	-	-	-	7,457	7,457
Total comprehensive income (loss)					15,885
Balance, March 31, 2014	<u>\$ 2,000</u>	<u>\$ 211,147</u>	<u>\$ 428,613</u>	<u>\$ 24,558</u>	<u>\$ 666,318</u>
				<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Equity</u>
Balance, December 31, 2012	\$ 2,000	\$ 211,049	\$ 409,342	\$ 47,449	\$ 669,840
Comprehensive income (loss):					
Net income (loss)	-	-	43,332	-	43,332
Other comprehensive income (loss), net of tax	-	-	-	(4,323)	(4,323)
Total comprehensive income (loss)					39,009
Balance, March 31, 2013	<u>\$ 2,000</u>	<u>\$ 211,049</u>	<u>\$ 452,674</u>	<u>\$ 43,126</u>	<u>\$ 708,849</u>

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Unaudited Interim Statements of Cash Flows
Three Months Ended March 31, 2014 and 2013 (in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,428	\$ 43,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Policy charges and fee income	1,041	3,408
Interest credited to policyholders' account balances	10,034	5,138
Realized investment (gains) losses, net	16,563	(14,977)
Amortization and other non-cash items	(2,236)	(2,536)
Change in:		
Future policy benefits and other insurance liabilities	37,192	36,042
Reinsurance recoverables	(8,398)	(29,394)
Accrued investment income	690	950
Receivables from parent and affiliates	(3,795)	208
Payables to parent and affiliates	(94)	1,103
Deferred policy acquisition costs	(7,377)	(25,896)
Income taxes payable	4,677	59,116
Deferred sales inducements	(248)	(484)
Other, net	(6,177)	(3,275)
Cash flows from operating activities	\$ 50,300	\$ 72,735
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	\$ 33,961	\$ 28,043
Short-term investments	5,573	1,234
Policy loans	5,484	5,003
Ceded policy loans	(218)	(212)
Commercial mortgage and other loans	1,694	2,347
Other long-term investments	286	991
Equity securities, available for sale	-	288
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(60,269)	(44,437)
Short-term investments	(2,032)	(1,179)
Policy loans	(4,966)	(3,343)
Ceded policy loans	572	384
Commercial mortgage and other loans	(2,247)	(42,792)
Other long-term investments	(1,167)	(1,543)
Equity securities, available for sale	(4,000)	(5,002)
Notes receivable from parent and affiliates, net	918	497
Other, net	147	219
Cash flows used in investing activities	\$ (26,264)	\$ (59,502)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Policyholders' account deposits	\$ 47,042	\$ 61,262
Ceded policyholders' account deposits	(21,005)	(36,887)
Policyholders' account withdrawals	(27,320)	(28,880)
Ceded policyholders' account withdrawals	737	673
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	345	2,223
Drafts outstanding	(5,416)	(533)
Cash flows used in financing activities	\$ (5,617)	\$ (2,142)
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,419	11,091
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	40,641	50,596
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 59,060	\$ 61,687

See Unaudited Interim Notes to Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company of New Jersey, or the “Company”, is a wholly owned subsidiary of the Pruco Life Insurance Company (“Pruco Life”), which in turn is a wholly owned subsidiary of The Prudential Insurance Company of America (“Prudential Insurance”). Prudential Insurance is an indirect wholly owned subsidiary of Prudential Financial, Inc. (“Prudential Financial”). The Company 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, primarily through affiliated and unaffiliated distributors, in New Jersey and New York only.

Basis of Presentation

The Unaudited Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“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”).

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.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

This section supplements, and should be read in conjunction with, Note 2 to the Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Adoption of New Accounting Pronouncements

In December 2013, the Financial Accounting Standards Board (“FASB”) issued updated guidance establishing a single definition of a public entity for use in financial accounting and reporting guidance. This new guidance is effective for all current and future reporting periods and did not have a significant effect on the Company’s financial position, results of operations, or financial statement disclosures.

In July 2013, the FASB issued new guidance regarding derivatives. The guidance permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting, in addition to the United States Treasury rate and London Inter-Bank Offered Rate (“LIBOR”). The guidance also removes the restriction on using different benchmark rates for similar hedges. The guidance is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and should be applied prospectively. Adoption of the guidance did not have a significant effect on the Company’s financial position, results of operations, and financial statement disclosures.

In July 2013, the FASB issued updated guidance regarding the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This new guidance is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively, with early application permitted. Adoption of the guidance did not have a significant effect on the Company’s financial position, results of operations, and financial statement disclosures.

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 (“AOCI”) 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 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.

In December 2011 and January 2013, the 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

Future Adoption of New Accounting Pronouncements

In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. This guidance can be elected for prospective adoption or by using a modified retrospective transition method. This guidance is not expected to have a significant impact on the Company's financial position, results of operations, or financial statement disclosures.

3. INVESTMENTS

Fixed Maturities and Equity Securities

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

	March 31, 2014				
	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	\$ 24,745	\$ 3,251	\$ -	\$ 27,996	\$ -
Obligations of U.S. states and their political subdivisions	9,767	334	11	10,090	-
Foreign government bonds	11,439	878	-	12,317	-
Public utilities	107,345	4,957	824	111,478	-
All other corporate securities	604,185	38,687	3,295	639,577	(45)
Asset-backed securities (1)	50,596	583	140	51,039	(102)
Commercial mortgage-backed securities	84,588	3,609	11	88,186	-
Residential mortgage-backed securities (2)	25,687	2,783	-	28,470	(274)
Total fixed maturities, available-for-sale	<u>\$ 918,352</u>	<u>\$ 55,082</u>	<u>\$ 4,281</u>	<u>\$ 969,153</u>	<u>\$ (421)</u>
Equity securities, available-for-sale					
Common Stocks:					
Mutual funds	\$ 4,038	\$ 133	\$ 1	\$ 4,170	
Non-redeemable preferred stocks	53	29	-	82	
Total equity securities, available-for-sale	<u>\$ 4,091</u>	<u>\$ 162</u>	<u>\$ 1</u>	<u>\$ 4,252</u>	

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, 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 \$0.7 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.

	December 31, 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	\$ 24,842	\$ 2,939	\$ -	\$ 27,781	\$ -
Obligations of U.S. states and their political subdivisions	4,781	53	153	4,681	-
Foreign government bonds	11,457	901	-	12,358	-
Public utilities	105,717	3,898	2,371	107,244	-
All other corporate securities	600,938	34,010	7,582	627,366	(45)
Asset-backed securities (1)	51,651	611	1,084	51,178	(102)
Commercial mortgage-backed securities	63,090	3,763	14	66,839	-
Residential mortgage-backed securities (2)	27,072	2,827	5	29,894	(281)
Total fixed maturities, available-for-sale	<u>\$ 889,548</u>	<u>\$ 49,002</u>	<u>\$ 11,209</u>	<u>\$ 927,341</u>	<u>\$ (428)</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

	December 31, 2013				Other-than-temporary Impairments in AOCI (3)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in thousands)	Fair Value	
Equity securities, available-for-sale					
Common Stocks:					
Mutual funds	\$ 38	\$ -	\$ 1	\$ 37	
Non-redeemable preferred stocks	53	26	-	79	
Total equity securities available-for-sale	<u>\$ 91</u>	<u>\$ 26</u>	<u>\$ 1</u>	<u>\$ 116</u>	

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, 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 \$0.7 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.

The amortized cost and fair value of fixed maturities by contractual maturities at March 31, 2014, are as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	\$ 52,433	\$ 54,679
Due after one year through five years	281,625	304,351
Due after five years through ten years	165,007	174,181
Due after ten years	258,416	268,247
Asset-backed securities	50,596	51,039
Commercial mortgage-backed securities	84,588	88,186
Residential mortgage-backed securities	25,687	28,470
Total	<u>\$ 918,352</u>	<u>\$ 969,153</u>

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

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

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Fixed maturities, available-for-sale		
Proceeds from sales	\$ 5,872	\$ 6,375
Proceeds from maturities/repayments	28,089	27,518
Gross investment gains from sales, prepayments, and maturities	323	1,971
Gross investment losses from sales and maturities	(51)	(122)
Equity securities, available-for-sale		
Proceeds from sales	\$ -	\$ 288
Gross investment gains from sales	-	104

As discussed in Note 2 to the Company's Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013, a portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities are recognized in "Other comprehensive income (loss)" ("OCI"). For these securities, the net amount recognized in earnings ("credit loss impairments") represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

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 March 31,	
	2014	2013
	(in thousands)	
Balance, beginning of period	\$ 716	\$ 2,411
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(7)	(1,632)
Increases due to the passage of time on previously recorded credit losses	4	10
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(11)	(69)
Balance, end of period	<u>\$ 702</u>	<u>\$ 720</u>

Trading Account Assets

There were no “Trading account assets” as of both March 31, 2014 and December 31, 2013.

Commercial Mortgage and Other Loans

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

	March 31, 2014		December 31, 2013	
	Amount (in thousands)	% of Total	Amount (in thousands)	% of Total
Commercial and agricultural mortgage loans by property type:				
Apartments/Multi-Family	\$ 82,870	29.5%	\$ 81,484	28.5%
Retail	65,058	23.1	65,353	22.9
Industrial	34,971	12.4	40,281	14.1
Office	30,556	10.9	30,635	10.7
Other	25,743	9.2	25,277	8.8
Hospitality	24,074	8.6	24,186	8.5
Total commercial mortgage loans	263,272	93.7	267,216	93.5
Agricultural property loans	17,988	6.3	18,691	6.5
Total commercial and agricultural mortgage loans by property type	281,260	100.0%	285,907	100.0%
Valuation allowance	(1,785)		(1,785)	
Total net commercial and agricultural mortgage loans by property type	<u>279,475</u>		<u>284,122</u>	
Other Loans				
Uncollateralized loans	8,410		8,410	
Total other loans	<u>8,410</u>		<u>8,410</u>	
Total commercial mortgage and other loans	<u>\$ 287,885</u>		<u>\$ 292,532</u>	

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States and other countries with the largest concentrations in Illinois (15%), Texas (14%), and New York (11%) at March 31, 2014.

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

	March 31, 2014	December 31, 2013
	(in thousands)	
Allowance for losses, beginning of year	\$ 1,785	\$ 1,162
Addition to / (release of) allowance of losses	-	623
Allowance for losses, end of year (1)	<u>\$ 1,785</u>	<u>\$ 1,785</u>

(1) Agricultural loans represent less than \$0.1 million of the ending allowance at both March 31, 2014 and December 31, 2013.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

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

	March 31, 2014	December 31, 2013
	(in thousands)	
Allowance for Credit Losses:		
Ending balance: individually evaluated for impairment (1)	\$ -	\$ -
Ending balance: collectively evaluated for impairment (2)	1,785	1,785
Total ending balance	<u>\$ 1,785</u>	<u>\$ 1,785</u>
Recorded Investment: (3)		
Ending balance gross of reserves: individually evaluated for impairment (1)	\$ -	\$ -
Ending balance gross of reserves: collectively evaluated for impairment (2)	289,670	294,317
Total ending balance, gross of reserves	<u>\$ 289,670</u>	<u>\$ 294,317</u>

(1) There were no loans individually evaluated for impairments at March 31, 2014 and December 31, 2013.

(2) Agricultural loans collectively evaluated for impairment had a recorded investment of \$18.0 million and \$18.7 million at March 31, 2014 and December 31, 2013, respectively, and no related allowance for both periods.

(3) Uncollateralized loans collectively evaluated for impairment had a recorded investment of \$8.4 million at both March 31, 2014 and December 31, 2013 and no related allowance for both periods.
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. There were no impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses, at March 31, 2014 and December 31, 2013. There were no recorded investments in impaired loans with an allowance recorded, before the allowances for losses at both March 31, 2014 and December 31, 2013. There was no net investment income recognized on these loans for both the periods ended March 31, 2014 and December 31, 2013.

Impaired commercial mortgage and other loans with no allowance for losses are loans in which the fair value of the collateral or the net present value of the loans' expected future cash flows equals or exceeds the recorded investment. The company had no such loans at March 31, 2014 and December 31, 2013. See Note 2 to the Company's Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013 for information regarding the Company's accounting policies for non-performing loans.

The following table sets forth the credit quality indicators as of March 31, 2014, based upon the recorded investment gross of allowance for credit losses.

Total commercial and agricultural mortgage loans

Loan-to-Value Ratio	Debt Service Coverage Ratio - March 31, 2014			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in thousands)			
0%-59.99%	\$ 127,892	\$ 2,619	\$ 1,784	\$ 132,295
60%-69.99%	83,360	-	-	83,360
70%-79.99%	53,074	2,874	4,937	60,885
Greater than 80%	3,170	1,550	-	4,720
Total commercial and agricultural mortgage loans	<u>\$ 267,496</u>	<u>\$ 7,043</u>	<u>\$ 6,721</u>	<u>\$ 281,260</u>

The following table sets forth the credit quality indicators as of December 31, 2013, based upon the recorded investment gross of allowance for credit losses.

Total commercial and agricultural mortgage loans

Loan-to-Value Ratio	Debt Service Coverage Ratio - December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in thousands)			
0%-59.99%	\$ 136,909	\$ -	\$ 1,833	\$ 138,742
60%-69.99%	81,355	-	-	81,355
70%-79.99%	56,392	2,900	4,956	64,248
Greater than 80%	-	1,562	-	1,562
Total commercial and agricultural mortgage loans	<u>\$ 274,656</u>	<u>\$ 4,462</u>	<u>\$ 6,789</u>	<u>\$ 285,907</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

As of March 31, 2014 and December 31, 2013, all commercial mortgage and other loans were in current status. The Company defines current in its aging of past due commercial mortgage and agricultural loans as less than 30 days past due.

There were no commercial mortgage and other loans in nonaccrual status as of March 31, 2014 and December 31, 2013. 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 to the Company's Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion regarding nonaccrual status loans.

For the three months ended both March 31, 2014 and 2013, there were no commercial mortgage and other loans sold or acquired, other than those through direct origination.

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of both March 31, 2014 and December 31, 2013, the Company had no significant commitments to fund to borrowers that have been involved in a troubled debt restructuring. During the three months ended March 31, 2014 and 2013, 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. For additional information relating to the accounting for troubled debt restructurings, see Note 2 to the Company's Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

Net Investment Income

Net investment income for the three months ended March 31, 2014 and 2013, was from the following sources:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Fixed maturities, available-for-sale	\$ 11,238	\$ 12,036
Trading account assets	-	4
Commercial mortgage and other loans	3,405	3,128
Policy loans	2,472	2,366
Short-term investments and cash equivalents	7	20
Other long-term investments	432	337
Gross investment income	17,554	17,891
Less: investment expenses	(798)	(859)
Net investment income	<u>\$ 16,756</u>	<u>\$ 17,032</u>

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three months ended March 31, 2014 and 2013, were from the following sources:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Fixed maturities	\$ 272	\$ 1,849
Equity securities	-	104
Commercial mortgage and other loans	-	(378)
Joint ventures and limited partnerships	(1)	(8)
Derivatives	(16,834)	13,410
Realized investment gains (losses), net	<u>\$ (16,563)</u>	<u>\$ 14,977</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of “Accumulated other comprehensive income (loss)” for the three months ended March 31, 2014 and 2013, are as follows:

Accumulated Other Comprehensive Income (Loss)			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses) (1) (in thousands)	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2013	\$ 68	\$ 17,033	\$ 17,101
Change in other comprehensive income before reclassifications	-	11,744	11,744
Amounts reclassified from AOCI	-	(272)	(272)
Income tax benefit (expense)	-	(4,015)	(4,015)
Balance, March 31, 2014	\$ 68	\$ 24,490	\$ 24,558

Accumulated Other Comprehensive Income (Loss)			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses) (1) (in thousands)	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2012	\$ 44	\$ 47,406	\$ 47,449
Change in other comprehensive income before reclassifications	(35)	(4,662)	(4,698)
Amounts reclassified from AOCI	-	(1,953)	(1,953)
Income tax benefit (expense)	12	2,315	2,328
Balance, March 31, 2013	\$ 21	\$ 43,106	\$ 43,126

(1) Includes cash flow hedges of (\$3.3) million and (\$3.1) million as of March 31, 2014 and December 31, 2013, respectively and (\$0.7) million and (\$1.3) million as of March 31, 2013 and December 31, 2012, respectively.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended March 31, 2014 (in thousands)
Amounts reclassified from AOCI (1)(2):	
Net unrealized investment gains (losses):	
Cash flow hedges - Currency/Interest rate (3)	\$ (44)
Net unrealized investment gains (losses) on available-for-sale securities (4)	316
Total net unrealized investment gains (losses)	272
Total reclassifications for the period	\$ 272

(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’ account balances.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains and losses on securities classified as “available-for-sale” and certain other long-term investments and other assets are included in the Company’s Unaudited Interim Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from “Other comprehensive income (loss)” those items that are included as part of “Net income” for a period

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Notes to Unaudited Interim Financial Statements—(Continued)

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 (1)	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in thousands)		
Balance, December 31, 2013	\$ 224	\$ (628)	\$ 152	\$ 87	\$ (165)
Net investment gains (losses) on investments arising during the period	30	-	-	(10)	20
Reclassification adjustment for (gains) losses included in net income	(6)	-	-	2	(4)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs	-	36	-	(13)	23
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances	-	-	(19)	7	(12)
Balance, March 31, 2014	<u>\$ 248</u>	<u>\$ (592)</u>	<u>\$ 133</u>	<u>\$ 73</u>	<u>\$ (138)</u>

(1) Balances are net of reinsurance.

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 (2)	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in thousands)		
Balance, December 31, 2013	\$ 35,984	\$ (11,654)	\$ 2,126	\$ (9,258)	\$ 17,198
Net investment gains (losses) on investments arising during the period	13,179	-	-	(4,612)	8,567
Reclassification adjustment for (gains) losses included in net income	(266)	-	-	93	(173)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs	-	(2,859)	-	1,001	(1,858)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances	-	-	1,376	(482)	894
Balance, March 31, 2014	<u>\$ 48,897</u>	<u>\$ (14,513)</u>	<u>\$ 3,502</u>	<u>\$ (13,258)</u>	<u>\$ 24,628</u>

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

(2) Balances are net of reinsurance.

Net Unrealized Gains (Losses) on Investments by Asset Class

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

	March 31, 2014	December 31, 2013
	(in thousands)	
Fixed maturity securities on which an OTTI loss has been recognized	\$ 248	\$ 224
Fixed maturity securities, available-for-sale - all other	50,553	37,569
Equity securities, available-for-sale	161	25
Derivatives designated as cash flow hedges (1)	(3,251)	(3,057)
Other investments	1,434	1,447
Net unrealized gains (losses) on investments	<u>\$ 49,145</u>	<u>\$ 36,208</u>

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

Duration of Gross Unrealized Loss Positions for Fixed Maturities 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:

	March 31, 2014					
	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						
Obligations of U.S. states and their political subdivisions	\$ 306	\$ 11	\$ -	\$ -	\$ 306	\$ 11
Corporate securities	115,291	3,968	2,666	151	117,957	4,119
Asset-backed securities	14,832	99	2,616	41	17,448	140
Commercial mortgage-backed securities	399	8	266	3	665	11
Residential mortgage-backed securities	-	-	-	-	-	0
Total	\$ 130,828	\$ 4,086	\$ 5,548	\$ 195	\$ 136,376	\$ 4,281
Equity securities, available-for-sale	\$ 18	\$ 1	\$ -	\$ -	\$ 18	\$ 1

	December 31, 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						
Obligations of U.S. states and their political subdivisions	\$ 2,628	\$ 153	\$ -	\$ -	\$ 2,628	\$ 153
Corporate securities	185,613	9,740	2,612	213	188,225	9,953
Asset-backed securities	31,499	1,068	642	16	32,141	1,084
Commercial mortgage-backed securities	397	10	268	4	665	14
Residential mortgage-backed securities	936	5	-	-	936	5
Total	\$ 221,073	\$ 10,976	\$ 3,522	\$ 233	\$ 224,595	\$ 11,209
Equity securities, available-for-sale	\$ 22	\$ 1	\$ -	\$ -	\$ 22	\$ 1

The gross unrealized losses on fixed maturity securities at March 31, 2014 and December 31, 2013, are composed of \$3.9 million and \$11.1 million, related to high or highest quality securities based on The National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$0.4 million and \$0.1 million, related to other than high or highest quality securities based on NAIC or equivalent rating, respectively. At both March 31, 2014 and December 31, 2013, the \$0.2 million of gross unrealized losses of twelve months or more were concentrated in the consumer non-cyclical, communications, and basic industry sectors of the Company’s corporate securities and in asset-backed securities. In accordance with its policy described in Note 2 to the Company’s Financial Statements included in its 2013 Annual Report on Form 10-K, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at March 31, 2014 or December 31, 2013. 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 March 31, 2014, 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 March 31, 2014 and December 31, 2013, none of the gross unrealized losses related to equity securities represented declines in value of greater than 20%. In accordance with its policy described in Note 2 to the Company’s Financial Statements included in its 2013 Annual Report on Form 10-K, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at March 31, 2014 or December 31, 2013.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

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 real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits.

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 March 31, 2014				
	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	\$ -	\$ 27,996	\$ -	\$ -	\$ 27,996
Obligations of U.S. states and their political subdivisions	-	10,090	-	-	10,090
Foreign government bonds	-	12,317	-	-	12,317
Corporate securities	-	745,747	5,308	-	751,055
Asset-backed securities	-	29,074	21,965	-	51,039
Commercial mortgage-backed securities	-	88,186	-	-	88,186
Residential mortgage-backed securities	-	28,470	-	-	28,470
Sub-total	-	941,880	27,273	-	969,153
Equity securities, available for sale:	-	4,170	82	-	4,252
Short-term investments	315	1,322	-	-	1,637
Cash equivalents	-	15,788	-	-	15,788
Other long-term investments	-	5,204	-	(4,805)	399
Reinsurance recoverables	-	-	54,940	-	54,940
Receivables from parents and affiliates	-	7,811	3,639	-	11,450
Sub-total excluding separate account assets	315	976,175	85,934	(4,805)	1,057,619
Separate account assets (2)	59,500	10,524,013	6,692	-	10,590,205
Total assets	\$ 59,815	\$ 11,500,188	\$ 92,626	\$ (4,805)	\$ 11,647,824
Future policy benefits (4)	-	-	77,844	-	77,844
Payables to parent and affiliates	-	4,805	-	(4,805)	-
Total liabilities	\$ -	\$ 4,805	\$ 77,844	\$ (4,805)	\$ 77,844

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

	As of December 31, 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	\$ -	\$ 27,781	\$ -	\$ -	\$ 27,781
Obligations of U.S. states and their political subdivisions	-	4,681	-	-	4,681
Foreign government bonds	-	12,358	-	-	12,358
Corporate securities	-	730,248	4,362	-	734,610
Asset-backed securities	-	35,155	16,023	-	51,178
Commercial mortgage-backed securities	-	66,839	-	-	66,839
Residential mortgage-backed securities	-	29,894	-	-	29,894
Sub-total	-	906,956	20,385	-	927,341
Equity securities, available for sale:					
Short-term investments	182	4,998	-	-	5,180
Cash equivalents	-	13,999	-	-	13,999
Other long-term investments	-	5,124	-	(5,124)	-
Receivables from parents and affiliates	-	30,581	3,138	-	33,719
Sub-total excluding separate account assets	182	961,695	23,602	(5,124)	980,355
Separate account assets (2)	60,601	10,168,133	6,692	-	10,235,426
Total assets	\$ 60,783	\$ 11,129,828	\$ 30,294	\$ (5,124)	\$ 11,215,781
Future policy benefits (4)	-	-	(38,190)	-	(38,190)
Payables to parent and affiliates	-	5,125	-	(5,124)	1
Other liabilities (3)	-	-	43,340	-	43,340
Total liabilities	\$ -	\$ 5,125	\$ 5,150	\$ (5,124)	\$ 5,151

(1) "Netting" amounts represent the impact of offsetting asset and liability positions held within the same counterparty, subject to master netting arrangements.

(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 Statements of Financial Position.

(3) Reinsurance of variable annuity living benefit features that were classified as "Other Liabilities" at December 31, 2013 were reclassified to "Reinsurance Recoverables" at March 31, 2014 as they were in a net asset position.

(4) As of March 31, 2014, the net embedded derivative liability position of \$78 million includes \$84 million of embedded derivatives in an asset position and \$162 million of embedded derivatives in a liability position. As of December 31, 2013, the net embedded derivative asset position of \$38 million includes \$109 million of embedded derivatives in an asset position and \$71 million of embedded derivatives in a 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. The pricing hierarchy is updated for new financial products and recent pricing experience. 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 March 31, 2014 and December 31, 2013, 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.

Trading Account Assets – Trading account assets are comprised of perpetual preferred stock whose fair values are determined consistent with similar instruments described below under "Equity Securities."

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

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 “Payables to parent and affiliates,” 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 (“NPR”), 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, including overnight indexed swap discount rates, 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 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 that utilize significant unobservable inputs. Level 3 methodologies are validated through periodic comparison of the Company’s fair values to external broker-dealer values. As of March 31, 2014 and December 31, 2013, all 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.

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 actuarial 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.

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Notes to Unaudited Interim Financial Statements—(Continued)

The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived risk of its own non-performance, 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 policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets, and volatility. In the risk neutral valuation, the initial swap curve drives the total return used to grow the policyholders' account values. The Company's discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread relative to LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data. 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 – Transfers between levels are generally reported at the values as of the beginning of the period in which the transfers occur. Periodically there are transfers between Level 1 and Level 2 for assets held in the Company's Separate Account. The classification of Separate Account funds may vary dependent on the availability of information to the public. Should a fund's net asset value become publicly observable, the fund would be transferred from Level 2 to Level 1. During the three months ended March 31, 2014, \$0.2 million was transferred from Level 1 to Level 2. During the three months ended March 31, 2013, there were no transfers between Level 1 and Level 2.

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

	As of March 31, 2014		
	Internal (1)	External (2)	Total
	(in thousands)		
Corporate securities	\$ 4,438	\$ 870	\$ 5,308
Asset-backed securities	48	21,917	21,965
Equity securities	82	-	82
Reinsurance recoverables	54,940	-	54,940
Receivables from parents and affiliates	-	3,639	3,639
Subtotal excluding separate account assets	59,508	26,426	85,934
Separate account assets	6,692	-	6,692
Total assets	\$ 66,200	\$ 26,426	\$ 92,626
Future policy benefits	\$ 77,844	\$ -	\$ 77,844
Total liabilities	\$ 77,844	\$ -	\$ 77,844

	As of December 31, 2013		
	Internal (1)	External (2)	Total
	(in thousands)		
Corporate securities	\$ 4,362	\$ -	\$ 4,362
Asset-backed securities	50	15,973	16,023
Equity securities	79	-	79
Receivables from parents and affiliates	-	3,138	3,138
Subtotal excluding separate account assets	4,491	19,111	23,602
Separate account assets	6,692	-	6,692
Total assets	\$ 11,183	\$ 19,111	\$ 30,294
Future policy benefits	\$ (38,190)	\$ -	\$ (38,190)
Other Liabilities	43,340	-	43,340
Total liabilities	\$ 5,150	\$ -	\$ 5,150

- (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.

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Notes to Unaudited Interim Financial Statements—(Continued)

Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities – The table below presents quantitative information on significant internally-priced Level 3 assets and liabilities (see narrative below for quantitative information for separate account assets).

As of March 31, 2014						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average
			(in thousands)			
Assets:						
Corporate securities	\$ 4,438	Market comparables	EBITDA multiples (2)	6.0X	7.0X	6.09X
Reinsurance recoverables	\$ 54,940	Fair values are determined in the same manner as future policy benefits.				
Liabilities:						
Future policy benefits (3)	\$ 77,844	Discounted cash flow	Lapse rate (4)	0%	11%	
			NPR spread (5)	0.05%	1.01%	
			Utilization rate (6)	70%	98%	
			Withdrawal rate (7)	86%	100%	
			Mortality rate (8)	0%	13%	
			Equity Volatility curve	15%	28%	

As of December 31, 2013						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average
			(in thousands)			
Assets:						
Corporate securities	\$ 4,362	Discounted cash flow	Discount rate	11.0%	11.0%	11.00%
		Market comparables	EBITDA multiples (2)	6.0X	7.0X	6.09X
Liabilities:						
Future policy benefits (3)	\$ (38,190)	Discounted cash flow	Lapse rate (4)	0%	11%	
			NPR spread (5)	0.08%	1.09%	
			Utilization rate (6)	70%	94%	
			Withdrawal rate (7)	86%	100%	
			Mortality rate (8)	0%	13%	
			Equity Volatility curve	15%	28%	
Other Liabilities	43,340	Represents reinsurance of variable annuity living benefits in a liability position. Fair values are determined in the same manner as future policy benefits.				

- (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 benefit amount and the policyholder account value and reflect other factors, such as the applicability of any surrender charges. A dynamic lapse adjustment reduces the base lapse rate when the benefit 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 and its affiliates as these are insurance liabilities and senior to debt. The additional spread over LIBOR is determined by utilizing the credit spreads associated with issuing funding agreements, 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 policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%. 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.

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Notes to Unaudited Interim Financial Statements—(Continued)

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 emerging experience, future expectations and other data. While experience for these products is still emerging, the Company expects benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, 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 benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Therefore, to the extent more efficient 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 and thus are offset by changes in separate account liabilities on the Company's Unaudited Interim Statement of Financial Position. As a result, changes in value associated with these investments do not impact the Company's Unaudited Interim Statement of Operations. In addition, fees earned by the Company related to the management of most separate account assets classified as Level 3 do not change due to changes in the fair value of these investments. Quantitative information about significant internally-priced Level 3 separate account assets is as follows:

Real Estate and Other Invested Assets – Separate account assets include \$6.7 million of investments in real estate as of both March 31, 2014 and December 31, 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 10.00% (6.29% weighted average) as of March 31, 2014 and 5.00% to 10.00% (6.82% weighted average) as of December 31, 2013 and discount rates which ranged from 6.75% to 10.50% (7.24% weighted average) as of March 31, 2014 and 6.75% to 11.00% (7.90% weighted average) as of December 31, 2013.

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 emerging experience, future expectations and other data, including any observable market data, such as 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.

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Notes to Unaudited Interim Financial Statements—(Continued)

	Three Months Ended March 31, 2014			
	Fixed Maturities - Available For Sale		Equity Securities, Available for Sale	Receivables from Parents and Affiliates
	Corporate Securities	Asset-Backed Securities	(in thousands)	
Fair Value, beginning of period assets/(liabilities)	\$ 4,362	\$ 16,023	\$ 79	\$ 3,138
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	-	-	-	-
Asset management fees and other income	-	-	-	-
Interest credited to policyholders' account balances	-	-	-	-
Included in other comprehensive income (loss)	(217)	(1)	3	(1)
Net investment income	5	52	-	-
Purchases	1,210	-	-	-
Sales	(52)	-	-	-
Issuances	-	-	-	-
Settlements	-	(940)	-	-
Transfers into Level 3 (2)	-	7,320	-	992
Transfers out of Level 3 (2)	-	(489)	-	(490)
Fair Value, end of period assets/(liabilities)	<u>\$ 5,308</u>	<u>\$ 21,965</u>	<u>\$ 82</u>	<u>\$ 3,639</u>
Unrealized gains (losses) for the period relating to those				
Level 3 assets that were still held at the end of the period (3):				
Included in earnings:				
Realized investment gains (losses), net	\$ -	\$ -	\$ -	\$ -
Asset management fees and other income	\$ -	\$ -	\$ -	\$ -

	Three Months Ended March 31, 2014		
	Reinsurance Recoverables (4)	Separate Account Assets (1)	Future Policy Benefits
	(in thousands)		
Fair Value, beginning of period assets/(liabilities)	\$ (43,340)	\$ 6,692	\$ 38,190
Total gains (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	86,936	-	(102,525)
Asset management fees and other income	-	-	-
Interest credited to policyholders' account balances	-	-	-
Included in other comprehensive income (loss)	-	-	-
Net investment income	-	-	-
Purchases	11,344	-	-
Sales	-	-	-
Issuances	-	-	(13,509)
Settlements	-	-	-
Transfers into Level 3 (2)	-	-	-
Transfers out of Level 3 (2)	-	-	-
Fair Value, end of period assets/(liabilities)	<u>\$ 54,940</u>	<u>\$ 6,692</u>	<u>\$ (77,844)</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	\$ 109,592	\$ -	\$ (129,627)
Asset management fees and other income	\$ -	\$ -	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ -

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Notes to Unaudited Interim Financial Statements—(Continued)

	Three Months Ended March 31, 2013			
	Fixed Maturities Available For Sale			
	Corporate Securities	Asset-Backed Securities	Trading Account Assets-Equity Securities	Equity Securities, Available for Sale
	(in thousands)			
Fair Value, beginning of period assets/(liabilities)	\$ 6,073	\$ 18,301	\$ 1,390	\$ 1,067
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	1	-	-	-
Asset management fees and other income	-	-	27	-
Included in other comprehensive income (loss)	293	157	-	3
Net investment income	6	89	-	-
Purchases	11	5,190	-	-
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	(34)	(1,777)	-	-
Transfers into Level 3 (2)	-	-	-	-
Transfers out of Level 3 (2)	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 6,350	\$ 21,960	\$ 1,417	\$ 1,070
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	\$ -	\$ -	\$ 27	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ -	\$ -

	Three Months Ended March 31, 2013			
	Reinsurance Recoverables	Receivables from Parents and Affiliates	Separate Account Assets (1)	Future Policy Benefits
			(in thousands)	
Fair Value, beginning of period assets/(liabilities)	\$ 85,164	\$ 998	\$ 6,201	\$ (116,673)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	(66,945)	-	-	84,610
Asset management fees and other income	-	-	-	-
Interest credited to policyholders' account balances	-	-	61	-
Included in other comprehensive income (loss)	-	2	-	-
Net investment income	-	-	-	-
Purchases	9,430	500	-	-
Sales	-	-	-	-
Issuances	-	-	-	(11,551)
Settlements	-	-	-	-
Transfers into Level 3 (2)	-	-	-	-
Transfers out of Level 3 (2)	-	-	-	-
Fair Value, end of period assets/(liabilities)	\$ 27,649	\$ 1,500	\$ 6,262	\$ (43,614)
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	\$ (66,744)	\$ -	\$ -	\$ 84,337
Asset management fees and other income	\$ -	\$ -	\$ -	\$ -
Interest credited to policyholders' account balances	\$ -	\$ -	\$ 60	\$ -

- (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 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) Beginning of period represents "Other Liabilities" from December 31, 2013, since the reinsured variable annuity living benefit was in the liability position and reclassified to "Reinsurance Recoverables" at March 31, 2014 as they were in net asset position.

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Notes to Unaudited Interim Financial Statements—(Continued)

Transfers – Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of 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.

	March 31, 2014				December 31, 2013	
	Fair Value			Carrying Amount (1)	Fair Value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Total	Total
	(in thousands)					
Assets:						
Commercial mortgage and other loans	\$ -	\$ -	\$ 296,441	\$ 296,441	\$ 287,885	\$ 297,317
Policy loans	-	-	177,586	177,586	177,586	176,885
Other long term investments	-	-	898	898	781	744
Cash and cash equivalents	2,195	41,077	-	43,272	43,272	26,642
Accrued investment income	-	14,334	-	14,334	14,334	15,024
Receivables from parents and affiliates	-	27,059	-	27,059	26,957	23,198
Other assets	-	8,951	-	8,951	8,951	3,941
Total assets	\$ 2,195	\$ 91,421	\$ 474,925	\$ 568,541	\$ 559,766	\$ 543,751
Liabilities:						
Policyholders' Account Balances - Investment Contracts	\$ -	\$ 133,855	\$ 10,850	\$ 144,705	\$ 146,990	\$ 140,982
Cash collateral for loaned securities	-	4,426	-	4,426	4,426	4,081
Short-term debt	-	24,220	-	24,220	24,000	24,000
Long-term debt	-	94,458	-	94,458	93,000	100,677
Payables to parent and affiliates	-	5,211	-	5,211	5,211	4,607
Other liabilities	-	42,242	-	42,242	42,242	48,662
Total liabilities	\$ -	\$ 304,412	\$ 10,850	\$ 315,262	\$ 315,869	\$ 323,578

(1) Carrying values presented herein differ from those in the Company's Unaudited Interim 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

During the fourth quarter of 2013, the Company changed the valuation technique used to fair value policy loans. For the period ended December 31, 2013, the fair value of policy loans was determined by discounting expected cash flows at the current loan coupon rate. As a result the carrying value of the policy loans approximates the fair value for the year ended December 31, 2013. Prior to this change, the fair value of U.S. insurance policy loans was calculated by discounting expected cash flows based upon current U.S. Treasury rates and historical loan repayment patterns.

Other Long-term Investments

Other long-term investments include investments in joint ventures and limited partnerships. The estimated fair values of these cost method investments are generally based on the Company's share of the net asset value ("NAV") as provided in the financial statements of the investees. In certain circumstances, management may adjust the NAV by a premium or discount when it has sufficient evidence to support applying such adjustments. No such adjustments were made as of March 31, 2014 and December 31, 2013.

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Notes to Unaudited Interim Financial Statements—(Continued)

Cash and Cash Equivalents, 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 and cash equivalents, 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 or paid.

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.

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.

Foreign Exchange Contracts

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

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Notes to Unaudited Interim Financial Statements—(Continued)

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 Reinsurance Ltd., or "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 a liability of \$78 million and an asset of \$38 million as of March 31, 2014 and December 31, 2013, respectively. The fair value of the embedded derivatives related to the reinsurance of certain of these benefits to Pruco Re included in "Reinsurance recoverables" was an asset of \$55 million and a liability of \$43 million as of March 31, 2014 and December 31, 2013, respectively.

The Company has invested in fixed maturities in the past that, in addition to a stated coupon, provided a return based upon the results of an underlying portfolio of fixed income investments and related investment activity. The Company accounted for these investments as available-for-sale fixed maturities containing embedded derivatives. Such embedded derivatives are marked to market through "Realized investment gains (losses), net," based upon the change in value of the underlying portfolio.

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

Primary Underlying	March 31, 2014			December 31, 2013		
	Notional Amount	Gross Fair Value		Notional Amount	Gross Fair Value	
		Assets	Liabilities		Assets	Liabilities
(in thousands)						
Derivatives Designated as Hedge Accounting Instruments:						
Currency/Interest Rate						
Currency Swaps	\$ 41,247	\$ -	\$ (3,569)	\$ 41,256	\$ -	\$ (3,328)
Total Qualifying Hedges	<u>\$ 41,247</u>	<u>\$ -</u>	<u>\$ (3,569)</u>	<u>\$ 41,256</u>	<u>\$ -</u>	<u>\$ (3,328)</u>
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 57,200	\$ 4,074	\$ -	\$ 57,200	\$ 3,443	\$ -
Credit						
Credit Default Swaps	8,275	46	(499)	9,275	15	(499)
Currency/Interest Rate						
Currency Swaps	13,370	17	(330)	10,370	-	(556)
Equity						
Equity Options	1,870,001	1,067	(407)	1,870,001	1,666	(742)
Total Non-Qualifying Hedges	<u>1,948,846</u>	<u>5,204</u>	<u>(1,236)</u>	<u>1,946,846</u>	<u>5,124</u>	<u>(1,797)</u>
Total Derivatives (1)	<u>\$ 1,990,093</u>	<u>\$ 5,204</u>	<u>\$ (4,805)</u>	<u>\$ 1,988,102</u>	<u>\$ 5,124</u>	<u>\$ (5,125)</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

- (1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a liability of \$78 million and an asset of \$38 million as of March 31, 2014 and December 31, 2013, respectively, included in “Future policy benefits.” The reinsurance of the embedded derivatives was an asset of \$55 million and a liability of \$43 million as of March 31, 2014 and December 31, 2013, respectively, included in “Reinsurance Recoverables” and “Other Liabilities.”

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.

March 31, 2014					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral	Net Amount
	(in thousands)				
Offsetting of Financial Assets:					
Derivatives	\$ 5,204	\$ (4,805)	\$ 399	\$ (1,241)	\$ (842)
Securities purchased under agreement to resell	41,077	-	41,077	(41,077)	-
Total Assets	<u>\$ 46,281</u>	<u>\$ (4,805)</u>	<u>\$ 41,476</u>	<u>\$ (42,318)</u>	<u>\$ (842)</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 4,805	\$ (4,805)	\$ -	\$ -	\$ -
Securities sold under agreement to repurchase	-	-	-	-	-
Total Liabilities	<u>\$ 4,805</u>	<u>\$ (4,805)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 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	Financial Instruments/ Collateral	Net Amount
	(in thousands)				
Offsetting of Financial Assets:					
Derivatives	\$ 5,124	\$ (5,124)	\$ -	\$ -	\$ -
Securities purchased under agreement to resell	25,551	-	25,551	(25,551)	-
Total Assets	<u>\$ 30,675</u>	<u>\$ (5,124)</u>	<u>\$ 25,551</u>	<u>\$ (25,551)</u>	<u>\$ -</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 5,125	\$ (5,124)	\$ 1	\$ -	\$ 1
Securities sold under agreement to repurchase	-	-	-	-	-
Total Liabilities	<u>\$ 5,125</u>	<u>\$ (5,124)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</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 Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2013.

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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim 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 March 31, 2014			
	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	\$ -	\$ (10)	\$ (34)	\$ (194)
Total cash flow hedges	-	(10)	(34)	(194)
Derivatives Not Qualifying as Hedging Instruments:				
Interest Rate	1,417	-	-	-
Currency	-	-	-	-
Currency/Interest Rate	242	-	2	-
Credit	(40)	-	-	-
Equity	(264)	-	-	-
Embedded Derivatives	(18,189)	-	-	-
Total non-qualifying hedges	(16,834)	-	2	-
Total	\$ (16.834)	\$ (10)	\$ (32)	\$ (194)

Three Months Ended March 31, 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	\$ -	\$ 12	\$ 4	\$ 592
Total cash flow hedges	-	12	4	592
Derivatives Not Qualifying as Hedging Instruments:				
Interest Rate	(647)	-	-	-
Currency	-	-	-	-
Currency/Interest Rate	(44)	-	2	-
Credit	(498)	-	-	-
Equity	(1,936)	-	-	-
Embedded Derivatives	16,535	-	-	-
Total non-qualifying hedges	13,410	-	2	-
Total	\$ 13,410	\$ 12	\$ 6	\$ 592

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

For the three months ended March 31, 2014 and 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, 2013	\$ (3,057)
Net deferred gains (losses) on cash flow hedges from January 1 to March 31, 2014	(238)
Amount reclassified into current period earnings	44
Balance, March 31, 2014	<u>\$ (3,251)</u>

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Notes to Unaudited Interim Financial Statements—(Continued)

As of March 31, 2014 and 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 variable cash flows are hedged is 14 years. Income amounts deferred in “Accumulated other comprehensive income (loss)” as a result of cash flow hedges are included in “Net unrealized investment gains (losses)” in the Unaudited Interim Statements of Equity.

Credit Derivatives

The Company has no exposure from credit derivatives where it has written credit protection as of March 31, 2014 and December 31, 2013.

The Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company’s investment portfolio. As of March 31, 2014 and December 31, 2013, the Company had \$8 million and \$9 million of outstanding notional amounts, respectively, reported at fair value as a liability of less than \$1 million for both periods.

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 7. 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 \$6 million of commercial loans as of March 31, 2014. The Company also made commitments to purchase or fund investments, mostly private fixed maturities, of \$9 million as of March 31, 2014.

Contingent Liabilities

On an ongoing basis, the Company’s internal supervisory and control functions review the quality of sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. From time to time, this review process results in the discovery of product administration, servicing or other errors, including errors relating to the timing or amount of payments or contract values due to customers. In certain cases, if appropriate, the Company may offer customers remediation and may incur charges, including the costs of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see “Litigation and Regulatory Matters” below.

It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company’s financial position.

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its business. Pending legal and regulatory actions include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which it operates. The Company is subject to class action lawsuits and other litigation involving a variety of issues and allegations involving sales practices, claims payments and procedures, premium charges, policy servicing and breach of fiduciary duty to customers. The Company is also subject to litigation arising out of its general business activities, such as its investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment, and could be exposed to claims or litigation concerning certain business or process patents. In 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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

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 March 31, 2014, 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 August 2013, the court dismissed the complaint with prejudice. In September 2013, plaintiff filed an appeal with Florida's Circuit Court of the Second Judicial Circuit in Leon County.

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. Substantially all other jurisdictions that are not signatories to the Global Resolution Agreement or the Regulatory Settlement Agreement have entered into similar agreements with the Company.

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 December 2013, this matter was closed without prejudice.

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. 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 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 March 31, 2014 and 2013. The expense charged to the Company for the deferred compensation program was less than \$1 million for both the three months ended March 31, 2014 and 2013.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Unaudited Interim Financial Statements—(Continued)

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 \$1 million for both the three months ended March 31, 2014 and 2013.

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 less than \$1 million for both the three months ended March 31, 2014 and 2013.

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 \$19 million and \$22 million for the three months ended March 31, 2014 and 2013, respectively.

Corporate Owned Life Insurance

The Company has sold three Corporate Owned Life Insurance, or "COLI", policies to Prudential Insurance and one to Prudential Financial. During the first quarter 2014, the Company sold one new policy to Prudential Insurance. The cash surrender value included in separate accounts for these COLI contracts was \$1,464 million at March 31, 2014 and \$1,219 million at March 31, 2013. Fees related to these COLI policies were \$7 million, and \$4 million for the three months ended March 31, 2014 and 2013, respectively.

Derivative Trades

In its ordinary course of business, the Company enters into OTC derivative contracts with an affiliate, PGF.

Reinsurance with Affiliates

The Company participates in reinsurance with its affiliates Prudential Arizona Reinsurance Captive Company, or "PARCC", Pruco Re, Prudential Arizona Reinsurance Term Company, or "PAR Term", Prudential Arizona Reinsurance Universal Company, or "PAR U", and Prudential Term Reinsurance Company, or "Term Re", and its parent companies, Pruco Life and Prudential Insurance, in order to provide risk diversification and additional capacity for future growth, limit the maximum net loss potential, manage the statutory capital for its individual life business, facilitate its capital market hedging program and align accounting methodology for the assets and liabilities of living benefit riders contained in annuities contracts. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term and coinsurance. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely.

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

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. 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 and to Pruco Life. The 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 amounts included in the Company's Unaudited Interim Statements of Financial Position at March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014	December 31, 2013
	(in thousands)	
Reinsurance recoverables	\$ 1,056,474	\$ 999,240
Policy loans	(12,780)	(12,340)
Deferred policy acquisition costs	(209,735)	(207,517)
Other liabilities (reinsurance payables) (1)	28,751	76,499

(1) December 31, 2013 includes \$43 million reclassified from reinsurance recoverables to other liabilities.

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

The reinsurance recoverables by counterparty is broken out below.

	Reinsurance Recoverables	
	March 31, 2014	December 31, 2013
	(in thousands)	
PARCC	\$ 469,325	\$ 482,633
PAR Term	88,816	82,322
Prudential Insurance	26,459	28,457
PAR U	406,568	397,776
Pruco Life	6,095	6,008
Pruco Re (1)	55,056	50
Term Re	2,892	-
Unaffiliated	1,263	1,994
Total reinsurance recoverables	<u>\$ 1,056,474</u>	<u>\$ 999,240</u>

(1) December 31, 2013 excludes \$43 million reclassified from reinsurance recoverable to other liabilities.

Reinsurance amounts, excluding investment gains (losses) on affiliated asset transfers, included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, were as follows:

	2014	2013
Premiums:		
Direct	\$ 46,896	\$ 44,751
Assumed	-	-
Ceded	(44,194)	(42,242)
Net Premiums	<u>2,702</u>	<u>2,509</u>
Policy charges and fee income:		
Direct	68,384	54,487
Assumed	-	-
Ceded	(21,694)	(17,294)
Net policy charges and fee income	<u>46,690</u>	<u>37,193</u>
Net investment income:		
Direct	16,856	17,112
Assumed	-	-
Ceded	(100)	(80)
Net investment income	<u>16,756</u>	<u>17,032</u>
Net other income:		
Direct	758	925
Assumed & Ceded	-	-
Net other income	<u>758</u>	<u>925</u>
Interest credited to policyholders' account balance:		
Direct	12,709	7,444
Assumed	-	-
Ceded	(2,675)	(2,306)
Net interest credited to policyholders' account balance	<u>10,034</u>	<u>5,138</u>
Policyholders' benefits (including change in reserves):		
Direct	55,504	54,137
Assumed	-	-
Ceded	(46,676)	(45,529)
Net policyholders' benefits (including change in reserves)	<u>8,828</u>	<u>8,608</u>
Net reinsurance expense allowances, net of capitalization and amortization	(9,416)	(9,713)
Realized investment gains (losses) net:		
Direct	(100,899)	83,133
Assumed	-	-
Ceded	84,336	(68,156)
Realized investment gains (losses) net	<u>\$ (16,563)</u>	<u>\$ 14,977</u>

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

Substantially all reinsurance contracts are with affiliates as of March 31, 2014 and 2013. The gross and net amounts of life insurance face amount in force as of March 31, were as follows:

	March 31, 2014	(in thousands)	March 31, 2013
Gross life insurance face amount in force	\$ 110,177,911		\$ 103,134,405
Reinsurance ceded	(100,112,131)		(93,276,829)
Net life insurance face amount in force	<u>\$ 10,065,780</u>		<u>\$ 9,857,576</u>

Pruco Life

The Company reinsures certain COLI and PDI policies with Pruco Life.

PARCC

The Company reinsures 90% of the risks 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 risks under its term life insurance policies with effective dates January 1, 2010 through December 31, 2013, through an automatic coinsurance agreement with PAR Term.

Term Re

The Company reinsures 95% of the risk under its term life insurance policies with effective dates on or after January 1, 2014 through an automatic coinsurance agreement with Term Re.

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.

PAR U

Effective July 1, 2012, the Company entered into an automatic coinsurance agreement with PAR U, an affiliated company, to reinsure an amount equal to 95% of all risks associated with its universal life policies.

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.

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 \$7 million and \$6 million for both the three months ended March 31, 2014 and 2013, respectively. These revenues are recorded as “Asset administration fees” in the Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

The Company participates in a revenue sharing agreement with Prudential Investments LLC, whereby the Company receives fee income from policyholders’ account balances invested in The Prudential Series Fund (“PSF”). Income received from Prudential Investments LLC, related to this agreement was \$2 million for the three months ended March 31, 2014 and 2013. These revenues are recorded as “Asset administration fees” in the Company’s Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**Notes to Unaudited Interim Financial Statements—(Continued)*****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 less than \$1 million for the three months ended March 31, 2014 and 2013. These expenses are recorded as “Net Investment Income” in the Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

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.

Debt Agreements

The Company is authorized to borrow funds up to \$200 million 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:

<u>Affiliate</u>	<u>Date Issued</u>	<u>Amount of Notes - March 31, 2014</u>	<u>Amount of Notes - December 31, 2013</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>
		(in thousands)			
PFI	12/16/2011	33,000	33,000	2.99% - 3.61%	12/2014 - 12/2016
Washington Street Investment	12/17/2012	52,000	52,000	1.21% - 1.87%	12/2014 - 12/2017
PFI	11/15/2013	9,000	9,000	2.24%	12/15/2018
PFI	11/15/2013	23,000	23,000	3.19%	12/15/2020
Total Loans Payable to Affiliate		<u>\$ 117,000</u>	<u>\$ 117,000</u>		

The total interest expense to the Company related to loans payable to affiliates was \$0.7 million and \$0.6 million for the three months ended March 31, 2014, and 2013, respectively.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A,") addresses the financial condition of Pruco Life Insurance Company of New Jersey, or the "Company," as of March 31, 2014, compared with December 31, 2013, and its results of operations for the three months ended March 31, 2014 and 2013. You should read the following analysis of our financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

Regulatory Developments

Prudential Financial is a "Designated Financial Company" under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). As a "Designated Financial Company," Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to prudential regulatory standards under the Dodd-Frank Act. The Financial Stability Board (the "FSB"), consisting of representatives of national financial authorities of the G20 nations, has also identified Prudential Financial as a global systemically important insurer that is to be subject to enhanced regulation.

At the direction of the FSB, the International Association of Insurance Supervisors (the "IAIS") is currently developing a model framework ("ComFrame") for the supervision of internationally active insurance groups ("IAIGs") that contemplates "group wide supervision" across national boundaries. Prudential Financial qualifies as an IAIG. In March 2014, Prudential Financial began participating in field testing to assist the IAIS in its development of ComFrame. Initial field testing will focus on gathering data to inform the development of the first step of ComFrame's risk-based global insurance capital standard, known as the "Basic Capital Requirement".

We are a licensed insurance company in New York, but are not domiciled in New York. In February 2014, the New York Department of Financial Services ("NY DFS") notified us that it does not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York purposes in respect of certain variable annuity products. We are continuing discussions with the NY DFS regarding the proper level of statutory reserves (including the applicable credit for reinsurance) for these and other products. If we are ultimately required to establish material additional reserves on a New York statutory accounting basis with respect to such variable annuity or other products, our ability to deploy capital for other purposes could be affected.

The National Association of Insurance Commissioners ("NAIC"), the NY DFS and other regulators continue to review life insurers' use of captive reinsurance companies. In February 2014, Rector & Associates, Inc., a consulting firm commissioned by the NAIC, issued a report to the NAIC that recommends placing limitations on the types of assets that may be used to finance reserves associated with certain term and universal life insurance policies and requiring captive reinsurers to collateralize their reinsurance obligations. In addition, in March 2014, a committee of the NAIC proposed changes to the NAIC accreditation standards that would regulate captive reinsurance companies that assume business directly written in more than one state as "multi-state reinsurers" and apply accreditation standards to those captives that historically were applicable only to traditional insurers. For information on our use of captive reinsurance companies and the potential effects of these proposals on us, see "—Liquidity and Capital Resources—Capital—Affiliated Captive Reinsurance Companies" below.

For additional information on the potential impacts of regulation on the Company, including the topics described above, see "Business—Regulation" and "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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 and certain annuity products. The Company earns mortality, expense fees, and asset administration fees primarily from the sale and servicing of universal life insurance and separate account products including 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 offered through the Company's variable annuity and variable life investment products. 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.

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

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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, 2013 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 variable annuities with (1) fixed interest rate allocation options, subject to a market value adjustment, that are registered with the United States Securities and Exchange Commission (the “SEC”), and (2) fixed-rate allocation options not subject to a market value adjustment and not registered with the SEC. The Company also offers fixed annuitization options during the payout phase of its variable annuities.

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 living benefits (including versions with guaranteed death benefits), and annuitization options. The majority of our currently sold contracts include an optional living benefit guarantee which provides, 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 determining periodic withdrawals for the life of the contractholder, and cannot be accessed as a lump-sum surrender value. Certain optional living benefits can also be purchased with a companion optional death benefit, also based on a highest daily contract value. We also offer Prudential Defined Income Variable Annuity (“PDI”) to complement the variable annuity products we offer with the highest daily benefit. PDI provides for guaranteed lifetime withdrawal payments but restricts contractholder asset allocation to a single bond sub-account within the separate account. In addition, certain inforce contracts include guaranteed benefits which are not currently offered, such as annuitization benefits based on a guaranteed notional amount and benefits payable at specified dates after the accumulation period. Most contracts also guarantee the contractholder a return of total deposits made to the contract less any partial withdrawals upon death.

Excluding our 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, which are within the general account, 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 contract 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 premiums accepted and/or subsequent contractholder deposits, an asset transfer feature, as well as required allocation to our general account for certain of our products. 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 bond fund sub-account within the separate account or a fixed-rate account within 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 March 31, 2014 approximately \$7.2 billion or 91% of total variable annuity account values contain a living benefit feature, compared to approximately \$7 billion or 91% as of December 31, 2013. As of March 31, 2014 approximately \$6.8 billion or 95% of variable annuity account values with living benefit features included an asset transfer feature in the product design, compared to approximately \$6.6 billion or 95% as of December 31, 2013.

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. 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 entered into 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.

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Term Life Insurance

The Company offers a variety of term life insurance products which represent 66% of our net individual life insurance in force at March 31, 2014, 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.

Variable Life Insurance

The Company offers a number of individual variable life insurance products which represent 26% of our net individual life insurance in force at March 31, 2014, that provide a return linked to an underlying investment portfolio selected by the policyholder while providing the policyholder with the flexibility to change both the death benefit and premium payments. The policyholder generally has the option of investing premiums in a fixed rate option that is part of our general account 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 that we determine, subject to certain contractual minimums. In the separate accounts, the policyholder bears the fund performance risk. The Company also offers a variable product that allows for a more flexible guarantee against lapse where policyholders can select the guarantee period. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance. A significant portion of the Company's insurance profits, however, is associated with our large in force block of variable policies. Profit patterns on these policies are not level and insureds generally begin paying reduced policy charges as the policies age. 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.

Universal Life Insurance

The Company offers universal life insurance products which represent 8% of our net individual life insurance in force at March 31, 2014, which feature flexible premiums, a choice of guarantees against lapse, and a crediting rate that we determine, subject to certain contractual minimums. In addition, we offer universal life insurance products that allow the policyholder to allocate a portion of their account balance into an index account that provides a return consistent with the S&P 500 index performance over the following year, subject to certain participation rates and contractual minimums and maximums. Our universal life products also offer a policy rider which allows the policyholder to access accelerated death benefits when a chronic or terminal illness, meeting certain contractual requirements, exists. The Company's profits from universal life insurance are impacted by mortality and expense margins and net interest spread.

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, the Company's results of operations and financial position as reported in the Unaudited Interim 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; including deferred sales inducements ("DSI");
- 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.

DAC and Other Costs

The near-term future rate of return assumptions used in evaluating DAC and deferred sales inducements for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider 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. As of March 31, 2014, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.2% near-term mean reversion equity 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 generally 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.

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For additional information on our policies for DAC and other costs and for the remaining critical accounting estimates listed above, see our Annual Report on Form 10-K for the year ended December 31, 2013, 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 Financial Statements for a discussion of newly adopted accounting pronouncements.

Changes in Financial Position

March 31, 2014 versus December 31, 2013

Total assets increased \$482 million, from \$13,300 million at December 31, 2013 to \$13,782 million at March 31, 2014.

- Separate account assets increased \$355 million, from \$10,235 million at December 31, 2013 to \$10,590 million at March 31, 2014, primarily driven by market appreciation and positive net flows from variable annuity new business sales.
- Reinsurance recoverables increased \$57 million from \$999 million at December 31, 2013, to \$1,056 million at March 31, 2014. The increase is primarily driven by the mark-to-market of the reinsurance recoverable related to the reinsured liability for variable annuity living benefits accounted for as embedded derivatives, primarily driven by lower interest rates. See Note 7 to the Unaudited Interim Financial Statements for additional information regarding affiliated reinsurance transactions.
- Invested assets increased \$40 million from \$1,440 million at December 31, 2013 to \$1,480 million at March 31, 2014 primarily due to universal life and term business growth in addition to favorable mark-to-market gains on investments due to lower interest rates.

Total liabilities increased by \$466 million, from \$12,650 million at December 31, 2013 to \$13,116 million at March 31, 2014.

- Separate account liabilities increased \$355 million, offsetting the increase in separate account assets described above.
- Future policy benefits and other policyholder liabilities increased \$142 million, from \$773 million at December 31, 2013 to \$915 million at March 31, 2014, primarily driven by the mark-to-market of the liability for living benefit embedded derivatives, as described above, in addition to an increase in reserves supporting term and universal life business arising from business growth.
- Partially offsetting these increases was a decrease in other liabilities of \$53 million, from \$132 million at December 31, 2013 to \$79 million at March 31, 2014, related to a decrease in reinsurance payables driven by the mark-to-market of the reinsurance recoverable related to the liability for variable annuity living benefit embedded derivatives, as described above.

Income (Loss) from Operations before Income Taxes

2014 to 2013 Three months Comparison. Income from operations before income taxes decreased \$49 million from income of \$60 million in the first quarter of 2013 to \$11 million in the first quarter of 2014.

Excluding the impact on the amortization of DAC and DSI of the mark-to-market of the living benefit embedded derivative liability and related hedge positions, as discussed below, income from operations before income taxes decreased \$31 million. This decrease was primarily driven by an unfavorable variance in the mark-to-market related to embedded derivatives associated with our non-reinsured living benefit features in our annuity products. This decrease was partially offset by higher fee income, net of distribution and amortization costs, related to higher average variable annuity and variable life account values invested in separate accounts driven by market appreciation and positive net flows from new business sales.

The DAC and DSI impact of the mark-to-market of the living benefit embedded derivative liability and related hedge positions reflected an unfavorable variance of \$17 million, with an amortization benefit of \$4 million in the first quarter of 2014 compared to an amortization benefit of \$21 million in the first quarter of 2013. The unfavorable variance was primarily driven by a larger benefit in the prior year quarter due to NPR losses.

For variable annuity and variable and universal life contracts, we generally amortize DAC and DSI over the expected lives of the contracts based on the level and timing of gross profits on the underlying 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 gross profits 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. For additional information regarding our best estimate of gross profits used to set amortization rates, see “—Application of Critical Accounting Estimates.”

Revenues, Benefits and Expenses

2014 to 2013 Three months Comparison. Revenues decreased \$21 million quarter over quarter. This decrease was primarily driven by a decrease of \$32 million in realized investment gains, primarily reflecting an unfavorable variance in the mark-to-market related to embedded derivatives associated with our non-reinsured living benefit features in our annuity products. This decrease is partially offset by \$9 million of higher policy charges and fee income in our annuity and life products, consisting primarily of mortality and expense and other insurance charges, assessed on policyholders’ fund balances primarily driven by higher variable annuity and variable life average separate account asset balances driven by market appreciation and positive net flows from new business sales.

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Benefits and expenses increased \$27 million. This increase was primarily driven by an unfavorable variance of \$14 million in DAC amortization and \$5 million in interest credited to policyholders' account balances, which includes DSI amortization. Higher DAC and DSI amortization is mainly related to the impact of the mark-to-market of the living benefit embedded derivative liability and related hedge positions in our annuity products. Also contributing to the increase was higher general, administrative and other expenses of \$8 million, reflecting higher distribution expenses in our annuity products due to higher separate account asset values, and higher allocation of expenses from parent company and affiliates related to salaries, employee benefits and other expenses in our life products.

Income Taxes

The income tax provision amounted to an expense of \$2 million and \$16 million for the three months ended March 31, 2014 and 2013, respectively. The decrease in income tax expense was primarily driven by the decrease 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 statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

The Company 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.

At March 31, 2014, the Company remains subject to examination in the U.S. for tax years 2004 through 2013.

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 2013 and current year results, and was adjusted to take into account the current year's equity market performance and expected business results. 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. In February 2014, the IRS released Revenue Ruling 2014-7, which modified and superseded Revenue Ruling 2007-54, by removing the provisions of Revenue Ruling 2007-54 related to the methodology to be followed in calculating the DRD and obsoleting Revenue Ruling 2007-61. However, there remains the possibility that the IRS and the U.S. Treasury will address, through subsequent guidance, the issues related to the calculation of 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 net income. These activities had no impact on the Company's results for 2013 or for the three months ended March 31, 2014.

For tax years 2007 through 2014, 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, 2013.

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. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets through affiliates as described herein.

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Effective and prudent liquidity and capital management is a priority across the organization. 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 under reasonably foreseeable stress scenarios. Prudential Financial has a capital management framework in place that governs the allocation of capital and approval of capital uses, and Prudential Financial forecasts capital sources and uses on a quarterly basis. Prudential Financial also employs a “Capital Protection Framework” to ensure the availability of capital resources to maintain adequate capitalization and competitive risk-based capital ratios under various stress scenarios.

Prudential Financial is a “Designated Financial Company” under the Dodd-Frank Act. As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to prudential regulatory standards, which include or will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to risk-based capital, leverage, liquidity, stress-testing, overall risk management, resolution plans, early remediation; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects. In addition, the Financial Stability Board, consisting of representatives of national financial authorities of the G20 nations, has identified Prudential Financial as a global systemically important insurer. For information on these recent actions and their potential impact on us, see “Regulatory Developments” above, as well as “Business—Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Capital

Our capital management framework is primarily based on statutory risk based capital measures. The Risk Based Capital, or RBC, ratio is a primary measure of the capital adequacy of the Company. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer’s products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an 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 March 31, 2014 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 rates 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 negatively impact regulatory capital levels.

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. As discussed above in “Regulatory Developments,” the NY DFS has notified us that it does not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York purposes in respect of certain variable annuity products. If we are ultimately required to establish material additional reserves on a New York statutory accounting basis with respect to such variable annuity or other products, our ability to deploy capital for other purposes could be affected.

In addition the NAIC recently proposed new guidance regarding the calculation of “total adjusted capital”, or TAC, that will directly affect the calculation of the RBC ratio. The new guidance, which is expected to be effective for December 31, 2014, would limit the portion of an insurer’s asset valuation reserve that can be counted as TAC to the amount not utilized in asset adequacy testing. We are currently assessing the impact of this guidance on the Company’s RBC ratio.

We employ a “Capital Protection Framework” to ensure that sufficient capital resources are available to maintain adequate capitalization and a competitive risk based capital ratio, under various stress scenarios. The Capital Protection Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, 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 access to sufficient resources to maintain adequate capitalization and a competitive RBC ratio under a range of potential stress scenarios.

Affiliated Captive Reinsurance Companies

Prudential Financial and the Company use captive reinsurance companies to more effectively manage its reserves and capital on an economic basis and to enable the aggregation and transfer of risks. The captive reinsurance companies assume business from affiliates only. To support the risks they assume, the captives are capitalized to a level we believe is consistent with the “AA” financial strength rating targets of Prudential Financial’s insurance subsidiaries. All of the captive reinsurance companies are wholly-owned subsidiaries of Prudential Financial 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, our captives are subject to internal policies governing their activities. Prudential Financial provides support to these captives, typically through net worth maintenance agreements, and in the normal course of business will contribute capital to the captives to support business growth and other needs. In addition, in connection with financing arrangements, Prudential Financial may guarantee certain of the captives’ obligations.

The NAIC, the NY DFS and other regulators continue to review life insurers’ use of captive reinsurance companies. In February 2014, Rector & Associates, Inc., a consulting firm commissioned by the NAIC, issued a report to the NAIC that recommends placing limitations on the types of assets that may be used to finance reserves associated with certain term and universal life insurance policies. In addition, in March 2014, a committee

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of the NAIC proposed changes to the NAIC accreditation standards that would regulate captive reinsurance companies that assume business directly written in more than one state as “multi-state reinsurers” and apply accreditation standards to those captives that historically were applicable only to traditional insurers. We cannot predict what, if any, changes may result from these reviews. If insurance laws are changed in a way that restricts our use of captive reinsurance companies in the future, our ability to write certain products and efficiently manage their associated risks could be adversely affected and we may need to increase prices on certain products, modify certain products or find alternate financing sources, any of which could adversely affect our competitiveness, capital and financial position and results of operations. Given the uncertainty of the ultimate outcome of these reviews, at this time we are unable to estimate their expected effects on our future capital and financial position and results of operations.

Our life insurance business is subject to a regulation entitled “Valuation of Life Insurance Policies Model Regulation,” commonly known as “Regulation XXX,” and a supporting guideline entitled “The Application of the Valuation of Life Insurance Policies Model Regulation,” commonly known as “Guideline AXXX.” The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. Prudential Financial uses captive reinsurance companies that are affiliates of the Company to implement reinsurance and capital management actions to satisfy these reserve requirements, by financing these non-economic reserves through the issuance of surplus notes by the captives, which are treated as capital for statutory purposes. The affiliated reinsurance agreements are described further in Note 7.

We reinsure variable annuity living benefit guarantees to an affiliated captive reinsurance company, Pruco Reinsurance, Ltd., or Pruco Re. This enables Prudential Financial to aggregate these risks within Pruco Re and manage them more efficiently through a hedging program. Since Pruco Re is domiciled and subject to regulation in the State of Arizona, Pruco Re must collateralize its obligations under the reinsurance arrangement in order for the Company to claim a reinsurance reserve credit for its business ceded. This requirement is satisfied by Pruco Re depositing assets into statutory reserve credit trusts.

We believe Pruco Re currently maintains an adequate level of capital and has access to liquidity to support this hedging program. However, Pruco Re’s capital and liquidity needs can vary significantly due to, among other things, changes in equity markets, interest rates, mortality and policyholder behavior. Through its Capital Protection Framework, Prudential Financial maintains access to on-balance sheet and contingent sources of capital and liquidity that are available to meet these needs as they arise. As of March 31, 2014 and December 31, 2013, the statutory reserve credit trusts required collateral of \$7 million. Pruco Re has deposited assets into statutory reserve credit trusts to satisfy this requirement.

Liquidity

There have been no material changes to the liquidity position of the Company since December 31, 2013. 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 liquidity are premiums and certain annuity considerations, investment and fee income, investment maturities and sales as well as internal borrowings. The principal uses of that liquidity include benefits, claims, 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 use a projection process for cash flows from operations to ensure sufficient liquidity to meet projected cash outflows, including claims. The impact of Prudential Funding, LLC’s financing capacity on liquidity (as described below) is considered in the internal liquidity measures of the Company.

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 March 31, 2014 and December 31, 2013 the Company had liquid assets of \$1 billion and \$973 million, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$60.7 million and \$45.8 million as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014, \$923 million, or 95%, of the fixed maturity investments in company general account portfolios were rated high or highest quality based on NAIC or equivalent rating. The remaining \$46 million, or 5%, 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’s positive tangible net worth at all times.

As we continue to underwrite term and universal life insurance business, we expect to have additional borrowing needs to finance non-economic reserves required under Regulation XXX and Guideline AXXX. We believe we have sufficient financing resources in place to meet our financing needs under Guideline AXXX through 2014. During the first three months of 2014, a newly-formed affiliated captive reinsurance company issued a \$250 million surplus note to an affiliate to finance Regulation XXX non-economic reserves. In addition, in April 2014, one of our affiliated captives issued an additional \$250 million of surplus notes in return for an equal amount of credit-linked notes under a \$2 billion facility for the third-party financing of Regulation XXX reserves. Prudential Financial is currently pursuing further solutions to address Regulation XXX financing needs generated by our expected sales of term life insurance policies for the remainder of 2014.

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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 Principal 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 March 31, 2014. Based on such evaluation, the Principal Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, 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 March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

See Note 6 to the Unaudited Interim 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, 2013. These risks could materially affect our business, results of operations or financial condition or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under "Forward-Looking Statements" above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

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Item 6. Exhibits

31.1	Section 302 Certification of the Principal Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Principal 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Pruco Life Insurance Company of New Jersey

By: /s/ Yanela C. Frias

Name: Yanela C. Frias

Vice President and Chief Financial Officer

(Authorized signatory and principal financial officer)

Date: May 14, 2014

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, Stephen Pelletier, certify that:

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

Date: May 14, 2014

/s/ Stephen Pelletier

Stephen Pelletier

Senior Vice President, performing the functions of the principal executive officer as of the date of this Quarterly Report on Form 10-Q

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Yanela C. Frias, certify that:

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

Date: May 14, 2014

/s/ Yanela C. Frias

Yanela C. Frias

Vice President and Chief Financial Officer

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

Pursuant to 18 U.S.C. § 1350, I, Stephen Pelletier, Senior Vice President of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (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: May 14, 2014

/s/ Stephen Pelletier

Name: Stephen Pelletier

Title: Senior Vice President, performing the functions of the
principal executive officer as of the date of this
Quarterly Report on Form 10-Q

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 OF THE CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, I, Yanela C. Frias, Vice President and Chief Financial Officer of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (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: May 14, 2014

/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.