PRUDENTIAL FINANCIAL INC
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey	**22-3703799**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

(Address and Telephone Number of Registrant s Principal Executive Offices)

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 x 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 x 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.

Large accelerated filer x 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 x

As of October 31, 2009, 462 million shares of the registrant s Common Stock (par value $0.01) were outstanding. In addition, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding.

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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, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets, particularly in light of severe economic conditions and the severe stress experienced by the global financial markets since the second half of 2007; (2) the availability and cost of external financing for our operations, which has been affected by the stress experienced by the global financial markets; (3) interest rate fluctuations; (4) reestimates of our reserves for future policy benefits and claims; (5) differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (6) changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill; (7) changes in our claims-paying or credit ratings; (8) investment losses, defaults and counterparty non-performance; (9) competition in our product lines and for personnel; (10) changes in tax law; (11) economic, political, currency and other risks relating to our international operations; (12) fluctuations in foreign currency exchange rates and foreign securities markets; (13) regulatory or legislative changes, including government actions in response to the stress experienced by the global financial markets; (14) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (15) 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; (16) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (17) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions; (18) changes in statutory or U.S. GAAP accounting principles, practices or policies; (19) changes in assumptions for retirement expense; (20) Prudential Financial, Inc. s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (21) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. As noted above, the period since the second half of 2007 has been characterized by extreme adverse market and economic conditions. The foregoing risks are even more pronounced in these unprecedented market and economic conditions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 for discussion of certain risks relating to our businesses and investment in our securities.

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Throughout this Quarterly Report on Form 10-Q, Prudential Financial and the Registrant refer to Prudential Financial, Inc., the ultimate holding company for all of our companies. Prudential Insurance refers to The Prudential Insurance Company of America, before and after its demutualization on December 18, 2001. Prudential, the Company, we and our refer to our consolidated operations before and after demutualization.

PART I FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

September 30, 2009 and December 31, 2008 (in millions, except share amounts)

	September 30, 2009	December 31, 2008
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2009 $169,692; 2008 $168,691)	$ 170,890	$ 158,056
Fixed maturities, held to maturity, at amortized cost (fair value: 2009 $5,199; 2008 $3,832)	5,141	3,808
Trading account assets supporting insurance liabilities, at fair value	15,848	13,875
Other trading account assets, at fair value	3,823	4,336
Equity securities, available for sale, at fair value (cost: 2009 $5,992; 2008 $7,288)	6,700	6,065
Commercial mortgage and other loans (includes $602 measured at fair value at September 30, 2009)	32,125	33,114
Policy loans	10,070	9,703
Securities purchased under agreements to resell	6	480
Other long-term investments	5,878	7,012
Short-term investments	7,839	5,576
Total investments	258,320	242,025
Cash and cash equivalents	11,971	15,028
Accrued investment income	2,332	2,266
Deferred policy acquisition costs	14,127	15,126
Deferred income taxes, net		1,106
Other assets	20,589	22,365
Separate account assets	168,128	147,095
TOTAL ASSETS	$ 475,467	$ 445,011
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 124,463	$ 121,951
Policyholders account balances	101,358	99,613
Policyholders dividends	1,511	1,670
Securities sold under agreements to repurchase	7,200	7,900
Cash collateral for loaned securities	3,748	4,168
Income taxes	3,407	459
Short-term debt	2,182	10,535
Long-term debt (includes $979 measured at fair value at September 30, 2009)	22,759	20,290
Other liabilities	15,864	17,544
Separate account liabilities	168,128	147,095

Total liabilities	450,620	431,225
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)		
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 641,762,081 and 604,902,444 shares issued as of September 30, 2009 and December 31, 2008, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively)		
Additional paid-in capital	23,348	22,001
Common Stock held in treasury, at cost (180,459,348 and 183,582,565 shares as of September 30, 2009 and December 31, 2008, respectively)	(11,442)	(11,655)
Accumulated other comprehensive income (loss)	99	(7,343)
Retained earnings	12,287	10,426
Total Prudential Financial, Inc. equity	24,298	13,435
Noncontrolling interests	549	351
Total equity	24,847	13,786
TOTAL LIABILITIES AND EQUITY	$ 475,467	$ 445,011

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2009 and 2008 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
REVENUES				
Premiums	$ 4,100	$ 3,618	$ 12,321	$ 11,503
Policy charges and fee income	613	711	2,052	2,360
Net investment income	2,858	2,931	8,548	8,983
Asset management fees and other income	1,450	43	3,695	1,528
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(398)	(452)	(3,497)	(1,652)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	38		2,033	
Other realized investment gains (losses), net	(97)	179	(1,123)	(431)
Total realized investment gains (losses), net	(457)	(273)	(2,587)	(2,083)
Total revenues	8,564	7,030	24,029	22,291
BENEFITS AND EXPENSES				
Policyholders benefits	3,925	3,954	12,152	12,000
Interest credited to policyholders account balances	1,317	496	3,585	1,878
Dividends to policyholders	566	779	842	1,496
General and administrative expenses	1,904	1,997	6,594	6,423
Total benefits and expenses	7,712	7,226	23,173	21,797
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	852	(196)	856	494
Income tax benefit	(153)	(149)	(311)	(66)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,005	(47)	1,167	560
Equity in earnings of operating joint ventures, net of taxes	31	(129)	30	(62)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,036	(176)	1,197	498
Income (loss) from discontinued operations, net of taxes	(4)	5	18	4
NET INCOME (LOSS)	1,032	(171)	1,215	502
Less: Income (loss) attributable to noncontrolling interests	(50)	5	(44)	37
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 1,082	$ (176)	$ 1,259	$ 465
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.37	$ (0.27)	$ 3.69	$ 1.26
Income (loss) from discontinued operations, net of taxes	(0.01)	0.02	0.05	0.01

Net income (loss) attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.36	$ (0.25)	$ 3.74	$ 1.27
Diluted:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.36	$ (0.27)	$ 3.68	$ 1.25
Income (loss) from discontinued operations, net of taxes	(0.01)	0.02	0.04	0.01
Net income (loss) attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.35	$ (0.25)	$ 3.72	$ 1.26
Closed Block Business				
Basic and Diluted:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	$ (10.00)	$ (34.00)	$ (199.00)	$ (43.50)
Income from discontinued operations, net of taxes				
Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	$ (10.00)	$ (34.00)	$ (199.00)	$ (43.50)

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statement of Equity

Nine Months Ended September 30, 2009 and 2008 (in millions)

	Prudential Financial, Inc. Equity								
	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2008	$ 6	$	$ 22,001	$ 10,426	$ (11,655)	$ (7,343)	$ 13,435	$ 351	$ 13,786
Common Stock issued			1,391				1,391		1,391
Contributions from noncontrolling interests								275	275
Distributions to noncontrolling interests								(16)	(16)
Stock-based compensation programs			(44)	(57)	213		112		112
Impact of adoption of new guidance for other-than-temporary impairments of debt securities, net of taxes				659		(659)			
Comprehensive income:									
Net income				1,259			1,259	(44)	1,215
Other comprehensive income (loss), net of tax						8,101	8,101	(17)	8,084
Total comprehensive income (loss)							9,360	(61)	9,299
Balance, September 30, 2009	$ 6	$	$ 23,348	$ 12,287	$ (11,442)	$ 99	$ 24,298	$ 549	$ 24,847

	Prudential Financial, Inc. Equity								
	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2007	$ 6	$	$ 20,945	$ 11,809	$ (9,693)	$ 447	$ 23,514	$ 409	$ 23,923
Common Stock acquired					(2,125)		(2,125)		(2,125)
Contributions from noncontrolling interests								10	10
Distributions to noncontrolling interests								(158)	(158)
Stock-based compensation programs			12	(21)	178		169		169
Impact of Company s investment in Wachovia Securities due to addition of AG Edwards business, net of tax			977				977		977
Cumulative effect of changes in accounting principles, net of taxes				3			3		3
Comprehensive income:									
Net income				465			465	37	502
Other comprehensive income (loss), net of tax						(4,275)	(4,275)	3	(4,272)
Total comprehensive income (loss)							(3,810)	40	(3,770)

Balance, September 30, 2008	$ 6	$	$ 21,934	$ 12,256	$ (11,640)	$ (3,828)	$ 18,728	$ 301	$ 19,029

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2009 and 2008 (in millions)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,215	$ 502
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	2,587	2,083
Policy charges and fee income	(850)	(709)
Interest credited to policyholders account balances	3,585	1,878
Depreciation and amortization	158	373
(Gains) losses on trading account assets supporting insurance liabilities, net	(1,527)	900
Change in:		
Deferred policy acquisition costs	(824)	(840)
Future policy benefits and other insurance liabilities	1,679	2,487
Other trading account assets	170	29
Income taxes	(602)	(827)
Other, net	(888)	456
Cash flows from operating activities	4,703	6,332
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	33,442	63,060
Fixed maturities, held to maturity	281	192
Trading account assets supporting insurance liabilities and other trading account assets	24,142	17,323
Equity securities, available for sale	1,422	3,043
Commercial mortgage and other loans	2,810	2,035
Policy loans	1,254	1,542
Other long-term investments	866	1,000
Short-term investments	21,182	26,194
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(31,079)	(66,084)
Fixed maturities, held to maturity	(1,077)	(37)
Trading account assets supporting insurance liabilities and other trading account assets	(25,706)	(18,766)
Equity securities, available for sale	(887)	(3,450)
Commercial mortgage and other loans	(2,186)	(4,656)
Policy loans	(1,174)	(1,160)
Other long-term investments	(866)	(2,203)
Short-term investments	(23,611)	(29,202)
Other, net	(209)	31
Cash flows used in investing activities	(1,396)	(11,138)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	18,169	26,388
Policyholders account withdrawals	(19,915)	(16,138)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(929)	(5,686)
Proceeds from the issuance of Common Stock	1,391	
Cash dividends paid on Common Stock	(39)	(86)
Net change in financing arrangements (maturities 90 days or less)	(4,648)	(47)
Common Stock acquired		(2,110)
Common Stock reissued for exercise of stock options	39	93
Proceeds from the issuance of debt (maturities longer than 90 days)	5,151	7,353
Repayments of debt (maturities longer than 90 days)	(6,235)	(4,342)

Excess tax benefits from share-based payment arrangements		21
Other, net	569	(326)
Cash flows from (used in) financing activities	(6,447)	5,120
Effect of foreign exchange rate changes on cash balances	83	(13)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,057)	301
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,028	11,060
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 11,971	$ 11,361
NON-CASH TRANSACTIONS DURING THE PERIOD		
Impact on Company s investment in Wachovia Securities due to addition of A.G. Edwards business, net of tax	$	$ 977
Treasury Stock shares issued for stock-based compensation programs	$ 98	$ 88

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (Prudential Financial) and its subsidiaries (collectively, Prudential or the Company) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance and Investments. The Company s real estate and relocation services business as well as businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested, including the Company s investment in the retail securities brokerage joint venture Wachovia Securities Financial Holdings, LLC (Wachovia Securities), are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 6), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholders dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company ceased offering these participating products.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company s consolidated variable interest entities. The Unaudited Interim Consolidated 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). Intercompany balances and transactions have been eliminated. The Company has evaluated subsequent events through November 6, 2009, the date these financial statements were issued as part of this Quarterly Report on Form 10-Q.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company s Audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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; measurement of goodwill and any related impairment; valuation of business acquired and its amortization; valuation of investments including derivatives and the recognition of other-than-temporary

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

impairments; future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

Reclassifications

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

2. ACCOUNTING POLICIES AND PRONOUNCEMENTS

Share-Based Payments

The Company issues employee share-based compensation awards, under a plan authorized by the Board of Directors, that are subject to specific vesting conditions. Generally the awards vest ratably over a three-year period, the nominal vesting period, or at the date the employee retires (as defined by the plan), if earlier. The Company accounts for those awards granted between (a) the adoption on January 1, 2003 of the fair value recognition provisions of authoritative guidance on accounting for stock based compensation, and (b) the adoption on January 1, 2006 of revised authoritative guidance on accounting for stock based compensation, which specify that an employee vests in the award upon retirement, using the nominal vesting period approach. Under this approach, the Company records compensation expense over the nominal vesting period. If the employee retires before the end of the nominal vesting period, any remaining unrecognized compensation cost is recognized at the date of retirement.

Upon the adoption of the revised authoritative guidance on accounting for stock based compensation on January 1, 2006, the Company revised its approach to the recognition of compensation costs for awards granted to retirement-eligible employees and awards that vest when an employee becomes retirement-eligible to apply the non-substantive vesting period approach to all new share-based compensation awards granted after January 1, 2006. Under this approach, all compensation cost is recognized on the date of grant for awards issued to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

If the Company had accounted for all share-based compensation awards granted after January 1, 2003 under the non-substantive vesting period approach, net income of the Financial Services Businesses for the three and nine months ended September 30, 2008 would have been increased by $0.2 million and $1 million, respectively, with no reportable impact to earnings per share of Common Stock, on both a basic and diluted basis. There is no impact to net income for 2009, as all compensation expense relating to share-based compensation awards accounted for under the nominal vesting period approach had been recognized in net income by December 31, 2008.

Investments in Debt and Equity Securities

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as available for sale are carried at fair value. See Note 12 for additional information regarding the determination of fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as held to maturity. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount, is included in Net investment income under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

can significantly impact income recognition and the amount of other-than-temporary impairments recognized in other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For asset-backed and mortgage-backed securities rated below AA, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments, as well as the impact of the Company s adoption of new authoritative guidance for the recognition and presentation of other-than-temporary impairments for debt securities. Unrealized gains and losses on fixed maturities classified as available for sale, net of tax, and the effect on deferred policy acquisition costs, valuation of business acquired, deferred sales inducements, future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in Accumulated other comprehensive income (loss).

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

Other trading account assets, at fair value consist primarily of investments and certain derivatives used by the Company either in its capacity as a broker-dealer or for asset and liability management activities. These instruments are carried at fair value. Realized and unrealized gains and losses on other trading account assets are reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income.

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

Short-term investments primarily consist of highly liquid debt instruments with a maturity of greater than three months and less than twelve months when purchased, other than those debt instruments meeting this definition that are included in Trading account assets supporting insurance liabilities, at fair value. These investments are generally carried at fair value and include money market investments, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments.

Realized investment gains (losses) are computed using the specific identification method with the exception of some of the Company s International Insurance businesses portfolios, where the average cost method is used. Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and

other types of investments, as well as adjustments to the cost basis of investments for net other-than-temporary impairments recognized in earnings. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, provisions for losses

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on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment, except those derivatives used in the Company s capacity as a broker or dealer.

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

In addition, in April 2009, the Financial Accounting Standards Board (FASB) revised the authoritative guidance for the recognition and presentation of other-than-temporary impairments for debt securities. The Company early adopted this guidance on January 1, 2009. This guidance indicates that an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. Prior to the adoption of this guidance the Company was required to record an other-than-temporary impairment for a debt security unless it could assert that it had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in its fair value to its amortized cost basis. For all debt securities in unrealized loss positions that do not meet either of these two criteria, the guidance requires that the Company analyze its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company may use the estimated fair value of collateral as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, the difference is recorded as an other-than-temporary impairment.

Under the authoritative guidance for the recognition and presentation of other-than-temporary impairments, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt security and its net present value calculated as described above. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in Other comprehensive income (loss). Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in earnings is tracked as a separate component of Accumulated other comprehensive income (loss). Prior to the adoption of this guidance in 2009, an other-than-temporary impairment recognized in earnings for debt securities was equal to the total difference between amortized cost and fair value at the time of impairment.

For debt securities, the split between the amount of an other-than-temporary impairment recognized in other comprehensive income and the net amount recognized in earnings is driven principally by assumptions regarding

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the amount and timing of projected cash flows. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries and changes in value. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

Goodwill

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit is an operating segment or a unit one level below the operating segment.

The Company did not evaluate goodwill for impairment as of September 30, 2009, as no events occurred or circumstances changed that would have more likely than not reduced the fair value of a reporting unit below its carrying amount during the third quarter of 2009. The carrying value of goodwill was $710 million as of September 30, 2009.

Derivative Financial Instruments

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

Derivatives are used in a non-dealer capacity in insurance, investment and international businesses as well as treasury operations to manage the characteristics of the Company s asset/liability mix, to manage the interest rate and currency characteristics of assets or liabilities and to mitigate the risk of a diminution, upon translation to U.S. dollars, of expected non-U.S. earnings and net investments in foreign operations resulting from unfavorable changes in currency exchange rates. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 14, all realized and unrealized changes in fair value of non-dealer related derivatives, with the exception of the effective portion of cash flow hedges and effective hedges of net investments in foreign operations, are recorded in current earnings. Cash flows from these derivatives are reported in the operating, investing, or financing activities sections in the Consolidated Statements of Cash Flows.

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Derivatives are also used in a derivative dealer or broker capacity in the Company s securities operations to meet the needs of clients by structuring transactions that allow clients to manage their exposure to interest rates, foreign exchange rates, indices or prices of securities and commodities and similarly in a dealer or broker capacity through the operation of certain hedge portfolios. Realized and unrealized changes in fair value of derivatives used in these dealer related operations are included in Asset management fees and other income in the periods in which the changes occur. Cash flows from such derivatives are reported in the operating activities section of the Consolidated Statements of Cash Flows.

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

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

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

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

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

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

When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded in either current period earnings or Accumulated other comprehensive income (loss), depending on whether the hedge transaction is a fair value hedge (e.g., a hedge of a recognized

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foreign currency asset or liability) or a cash flow hedge (e.g., a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss).

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

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

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

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

Income Taxes

The Company s liability for income taxes includes the liability for unrecognized tax benefits and interest and penalties which relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (tax attributes),

the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the

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statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The statute of limitations for the 2002 tax year expired on April 30, 2009. The statute of limitations for the 2003 tax year expired on July 31, 2009. The statute of limitations for the 2004 and 2005 tax years is set to expire in June 2010. Tax years 2006 through 2008 are still open for IRS examination. The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

As discussed above, 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. As such, the three and nine months ended September 30, 2009 benefited from a reduction to the liability for unrecognized tax benefits and interest of $156 million and $307 million, respectively, primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 and 2003 tax years, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates.

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 2008, current year results, and was adjusted to take into account the current year s equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company s taxable income before the DRD.

In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new regulations the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On May 11, 2009, the Obama Administration released the General Explanations of the Administration s Revenue Proposals. Although the Administration has not released proposed statutory language, one proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulation or legislation, could increase actual tax expense and reduce the Company s consolidated net income. These activities had no impact on the Company s 2008 or 2009 results.

In December 2006, the IRS completed all fieldwork with respect to its examination of the consolidated federal income tax returns for tax years 2002 and 2003. The final report was initially submitted to the Joint Committee on Taxation for their review in April 2007. The final report was resubmitted in March 2008 and again in April 2008. The Joint Committee returned the report to the IRS for additional review of an industry issue regarding the methodology for calculating the DRD related to variable life insurance and annuity contracts. The IRS completed its review of the issue and proposed an adjustment with respect to the calculation of the DRD. In order to expedite receipt of an income tax refund related to the 2002 and 2003 tax years, the Company has agreed to such adjustment. The report, with the adjustment to the DRD, was submitted to the Joint Committee on Taxation in October 2008. The Company was advised on January 2, 2009 that the Joint Committee completed its consideration of the report and has taken no exception to the conclusions reached by the IRS. Accordingly, the final report was processed and a $157 million refund was received in February 2009. The Company believes that its return position with respect to the calculation of the DRD is technically correct. Therefore, the Company filed protective refund claims on October 1, 2009 to recover the taxes associated with the agreed upon adjustment and to pursue such other actions as appropriate. These activities had no impact on the Company s 2008 or 2009 results.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

In January 2007, the IRS began an examination of tax years 2004 through 2006. For tax years 2007, 2008 and 2009, the Company participated in the IRS s Compliance Assurance Program (CAP). Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management s expectation this program will shorten the time period between the filing of the Company s federal income tax returns and the IRS s completion of its examination of the returns.

The Company s affiliates in Japan file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is 5 years from when the return is filed. During 2009, the Tokyo Regional Taxation Bureau concluded a routine tax audit of the tax returns of Prudential Life Insurance Company Ltd. for its tax years ending March 31, 2004 to March 31, 2008. These activities had no material impact on the Company s 2008 and 2009 results.

Accounting Pronouncements Adopted

In June 2009, the FASB issued authoritative guidance for, and on July 1, 2009 launched, the FASB s Accounting Standards Codification™ as the source of authoritative U.S. GAAP to be applied by nongovernmental entities. The Codification is not intended to change U.S. GAAP but is a new structure which takes accounting pronouncements and organizes them by accounting topic. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company s adoption of this guidance effective for the interim reporting period ending September 30, 2009 impacts the way the Company references U.S. GAAP accounting standards in the financial statements.

In May 2009, the FASB issued authoritative guidance for subsequent events, which addresses the accounting for and disclosure of subsequent events not addressed in other applicable GAAP, including disclosure of the date through which subsequent events have been evaluated. This guidance is effective for interim or annual periods ending after June 15, 2009. The Company s adoption of this guidance effective with the interim period ending June 30, 2009 did not have a material effect on the Company s consolidated financial position or results of operations. The required disclosure of the date through which subsequent events have been evaluated is provided in Note 1.

In April 2009, the FASB revised the authoritative guidance for disclosures about fair value of financial instruments. This new guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance also amends the disclosure requirements. This guidance is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance effective with the interim period ending June 30, 2009. The required disclosures are provided in Note 12.

In April 2009, the FASB revised the authoritative guidance for the recognition and presentation of other-than-temporary impairments. This new guidance amends the other-than-temporary impairment guidance for debt securities and expands the presentation and disclosure requirements of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance also requires that the required annual

disclosures for debt and equity securities be made for interim reporting periods. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company early adopted this guidance effective January 1, 2009, which resulted in a net after-tax increase to retained earnings and decrease to accumulated other comprehensive income (loss) of $659 million. The disclosures required by this new guidance are provided in Note 4. See Investments in Debt and Equity Securities above for more information.

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In April 2009, the FASB revised the authoritative guidance for fair value measurements and disclosures to provide guidance on (1) estimating the fair value of an asset or liability if there was a significant decrease in the volume and level of trading activity for these assets or liabilities, and (2) identifying transactions that are not orderly. Further, this new guidance requires additional disclosures about fair value measurements in interim and annual periods. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company s early adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations. The disclosures required by this revised guidance are provided in Note 12.

In April 2009, the FASB revised the authoritative guidance for the accounting for business combinations. This new guidance requires an asset acquired or liability assumed in a business combination that arises from a contingency to be recognized at fair value at the acquisition date, if the acquisition date fair value of that asset or liability can be determined during the measurement period. If the acquisition date fair value of an asset acquired or liability assumed in a business combination that arises from a contingency cannot be determined during the measurement period, the asset or liability shall be recognized at the acquisition date using the authoritative guidance related to accounting for contingencies. This new guidance also amends disclosure requirements. This guidance is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In September 2008, the FASB Emerging Issues Task Force (EITF) reached consensus on issuer s accounting for liabilities measured at fair value with a third-party credit enhancement. The consensus concluded that (a) the issuer of a liability (including debt) with a third-party credit enhancement that is inseparable from the liability, shall not include the effect of the credit enhancement in the fair value measurement of the liability; (b) the issuer shall disclose the existence of any third-party credit enhancement on such liabilities, and (c) in the period of adoption the issuer shall disclose the valuation techniques used to measure the fair value of such liabilities and disclose any changes from valuation techniques used in prior periods. The Company s adoption of this guidance on a prospective basis effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In June 2008, the FASB EITF reached consensus on the following issues contained in authoritative guidance for derivative instruments and hedging activities for determining whether an instrument (or an embedded feature) is indexed to an entity s own stock: (1) how an entity should evaluate whether an instrument (or embedded feature) is indexed to the entity s own stock; (2) how the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to the entity s own stock; (3) how an issuer should account for equity-linked financial instruments issued to investors for purposes of establishing a market-based measure of the grant-date fair value of employee stock options. This guidance clarifies what instruments qualify as indexed to an entity s own stock and are thereby eligible for equity classification. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In June 2008, the FASB revised the authoritative guidance for earnings per share for determining whether instruments granted in share-based payment transactions are participating securities. This new guidance states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method. This guidance is effective for fiscal years and interim periods beginning after December 15, 2008, and must be applied retrospectively to all EPS data presented. The

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Company s adoption of this guidance effective January 1, 2009 had no reportable impact on earnings per basic and diluted share of Common Stock for the three months ended September 30, 2008, and reduced earnings per basic and diluted share of Common Stock for the nine months ended September 30, 2008 by $0.01. The Company s adoption of this guidance effective January 1, 2009 reduced earnings per basic share of Common Stock for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 by $0.01, $0.05, $0.06, $0.06 and $0.02, respectively, and earnings per diluted share of Common Stock by $0.01, $0.01, $0.02, $0.03 and $0.01, respectively.

In May 2008, the FASB revised the authoritative guidance for the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This new guidance, which is effective for fiscal years and interim periods beginning after December 15, 2008 and must be applied retrospectively, addresses the accounting for certain convertible debt instruments including those that have been issued by the Company. It requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity within additional paid-in capital. The liability component of the debt instrument is accreted to par using the effective yield method, with the accretion being reported as a component of interest expense. Bond issuance costs are allocated to the debt and equity components in proportion to the debt proceeds. The Company s adoption of this guidance effective January 1, 2009 reduced net income for the three months ended September 30, 2008 by $10 million or $0.02 per share of Common Stock, on both a basic and diluted basis and reduced net income for the nine months ended September 30, 2008 by $28 million or $0.06 per share of Common Stock, on both a basic and diluted basis. The Company s adoption of this guidance effective January 1, 2009 reduced net income for the years ended December 31, 2008, 2007, 2006 and 2005 by $44 million, $42 million, $36 million and $5 million, or $0.10, $0.09, $0.07 and $0.01 per share of Common Stock, on both a basic and diluted basis, respectively.

In April 2008, the FASB revised the authoritative guidance for the determination of the useful life of intangible assets. This new guidance amends the list of factors an entity should consider in developing renewal or extension assumptions used to determine the useful life of recognized intangible assets. This guidance is effective for fiscal years and interim periods beginning after December 15, 2008, with the guidance for determining the useful life of a recognized intangible asset being applied prospectively to intangible assets acquired after the effective date and the disclosure requirements being applied prospectively to all intangible assets recognized as of, and after, the effective date. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In March 2008, the FASB issued authoritative guidance for derivative instruments and hedging activities which amends and expands the disclosure requirements for derivative instruments and hedging activities by requiring companies to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations. The required disclosures are provided in Note 14.

In February 2008, the FASB revised the authoritative guidance for the accounting for transfers of financial assets and repurchase financing transactions. The new guidance provides recognition and derecognition guidance for a repurchase financing transaction, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties, that is entered into contemporaneously with or in contemplation of, the initial transfer. The guidance is effective for fiscal years beginning after November 15, 2008. The Company s adoption of this guidance on a prospective basis effective January 1, 2009 did not have a material effect on the Company s consolidated financial position

or results of operations.

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In February 2008, the FASB revised the authoritative guidance which delays the effective date related to fair value measurements and disclosures for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In December 2007, the FASB issued authoritative guidance for business combinations which addresses the accounting for business acquisitions, is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited, and generally applies to business acquisitions completed after December 31, 2008. Among other things, the new guidance requires that all acquisition-related costs be expensed as incurred, and that all restructuring costs related to acquired operations be expensed as incurred. This new guidance also addresses the current and subsequent accounting for assets and liabilities arising from contingencies acquired or assumed and, for acquisitions both prior and subsequent to December 31, 2008, requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations, but may have an effect on the accounting for future business combinations.

In December 2007, the FASB issued authoritative guidance for noncontrolling interests in consolidated financial statements which changes the accounting for minority interests, which will be recharacterized as noncontrolling interests and classified by the parent company as a component of equity. Upon adoption, this guidance requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests and prospective adoption for all other requirements. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations, but did affect financial statement presentation and disclosure. Noncontrolling interests, previously reported as a liability, are now required to be reported as a separate component of equity on the balance sheet, and totaled $301 million at September 30, 2008 and totaled $351 million, $409 million, $329 million, $110 million, and $97 million at December 31, 2008, 2007, 2006, 2005 and 2004, respectively. In addition, income attributable to the noncontrolling interests, which was previously reported as an expense in General and administrative expenses and reflected within Income from Continuing Operations is now reported as a separate amount below Net Income, and totaled $5 million and $37 million for the three and nine months ended September 30, 2008, respectively, and totaled $36 million, $67 million, $25 million, $21 million and $13 million for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

Recent Accounting Pronouncements

In September 2009, the FASB issued updated guidance for the fair value measurement of investments in certain entities that calculate net asset value per share including certain alternative investments such as hedge funds, private equity funds, and venture capital funds. This guidance allows companies to determine the fair value of such investments using net asset value (NAV) as a practical expedient if the fair value of the investment is not readily determinable and the investee entity issues financial statements in accordance with measurement principles for investment companies. Use of this practical expedient is prohibited if it is probable the investment will be sold at something other than NAV. This guidance also requires new disclosures for each major category of alternative investments. It is effective for the first annual or interim reporting period ending after December 15, 2009, with early application permitted. The Company will adopt this guidance effective December 31, 2009. The Company is currently assessing the impact of this guidance on the Company s consolidated financial position, results of operations, and financial statement disclosures.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

In August 2009, the FASB issued updated guidance for the fair value measurement of liabilities. This guidance includes techniques for measuring fair value when a quoted price in an active market for the identical liability is not available and clarifies that restrictions preventing the transfer of a liability should not be considered as a separate input or adjustment in the measurement of its fair value, This guidance is effective for the first reporting period (including interim periods) beginning after issuance. The Company will adopt this guidance effective with the annual reporting period ended December 31, 2009. The Company is currently assessing the impact of this guidance on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In June 2009, the FASB issued authoritative guidance which changes the analysis required to determine whether or not an entity is a variable interest entity (VIE). In addition, the guidance changes the determination of the primary beneficiary of a VIE from a quantitative to a qualitative model. Under the new qualitative model, the primary beneficiary must have both the ability to direct the activities of the VIE and the obligation to absorb either losses or gains that could be significant to the VIE. This guidance also changes when reassessment is needed, as well as requires enhanced disclosures, including the effects of a company s involvement with a VIE on its financial statements. This guidance is effective for interim and annual reporting periods beginning after November 15, 2009. The Company will adopt this guidance effective January 1, 2010. The Company is currently assessing the impact of this guidance on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In June 2009, the FASB issued authoritative guidance which changes the accounting for transfers of financial assets, and is effective for transfers of financial assets occurring in interim and annual reporting periods beginning after November 15, 2009. It removes the concept of a qualifying special-purpose entity (QSPE) from the guidance for transfers of financial assets and removes the exception from applying the guidance for consolidation of variable interest entities to qualifying special-purpose entities. It changes the criteria for achieving sale accounting when transferring a financial asset and changes the initial recognition of retained beneficial interests. The guidance also defines participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. Disclosure provisions will be applied to transfers that occurred both before and after January 1, 2010. The Company will adopt this guidance effective January 1, 2010. The Company is currently assessing the impact of this guidance on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In December 2008, the FASB revised the authoritative guidance for employers disclosures about postretirement benefit plan assets. This new guidance requires additional disclosures about the components of plan assets, investment strategies for plan assets, significant concentrations of risk within plan assets, and requires disclosures regarding the fair value measurement of plan assets. This guidance is effective for fiscal years ending after December 15, 2009. The Company will provide the required disclosures in the annual reporting period ending December 31, 2009.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of Yamato Life

On May 1, 2009, the Company s Gibraltar Life operations acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008. Gibraltar Life served as the reorganization sponsor for Yamato and under the reorganization agreement acquired Yamato by contributing $72 million of capital to Yamato. As of September 30, 2009, the Company s Unaudited Interim Consolidated Statement of Financial Position reflects $2.3 billion of assets and $2.3 billion of liabilities related to Yamato. Subsequent to the acquisition, the Company renamed the acquired company The Prudential Financial of Japan Life Insurance Company Ltd.

Acquisition of Hyundai Investment and Securities Co., Ltd.

In 2004, the Company acquired an 80 percent interest in Hyundai Investment and Securities Co., Ltd., a Korean asset management firm, from an agency of the Korean government, for $301 million in cash, including $210 million used to repay debt assumed. Subsequent to the acquisition, the company was renamed Prudential Investment & Securities Co., Ltd. On January 25, 2008, the Company acquired the remaining 20 percent for $90 million.

Additional Investment in UBI Pramerica

On January 18, 2008, the Company made an additional investment of $154 million in its UBI Pramerica operating joint venture in Italy, which is accounted for under the equity method. This additional investment was necessary to maintain the Company s ownership interest at 35 percent and was a result of the merger of the Company s joint venture partner with another Italian bank, and the subsequent consolidation of their asset management companies into the UBI Pramerica joint venture.

Discontinued Operations

Income (loss) from discontinued businesses, including charges upon disposition, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Real estate investments sold or held for sale	$ (6)	$ 3	$ 22	$ 4
Equity sales, trading and research operations	1	1	2	(1)
International securities operations			1	(2)
Mexican asset management operations			(1)	1
Health care operations		3		3
Income (loss) from discontinued operations before income taxes	(5)	7	24	5
Income tax expense (benefit)	(1)	2	6	1
Income (loss) from discontinued operations, net of taxes	$ (4)	$ 5	$ 18	$ 4

Real estate investments sold or held for sale reflects the income from discontinued real estate investments.

The Company s Unaudited Interim Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses of $134 million and $61 million, respectively, as of September 30, 2009 and $218 million and $149 million, respectively, as of December 31, 2008. Charges recorded in connection with the disposals of businesses include estimates that are subject to subsequent adjustment.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, available for sale				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 6,873	$ 666	$ 128	$ 7,411
Obligations of U.S. states and their political subdivisions	809	57		866
Foreign government bonds	37,870	1,479	126	39,223
Corporate securities	87,391	4,786	2,917	89,260
Asset-backed securities(1)	13,355	164	2,985	10,534
Commercial mortgage-backed securities	11,200	171	345	11,026
Residential mortgage-backed securities(2)	12,194	505	129	12,570
Total fixed maturities, available for sale	$ 169,692	$ 7,828	$ 6,630	$ 170,890
Equity securities, available for sale	$ 5,992	$ 919	$ 211	$ 6,700

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

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held to maturity				
Foreign government bonds	$ 1,100	$ 36	$ 1	$ 1,135
Corporate securities	870	1	129	742
Asset-backed securities(1)	1,031	13	4	1,040
Commercial mortgage-backed securities	452	100	1	551
Residential mortgage-backed securities(2)	1,688	47	4	1,731

Total fixed maturities, held to maturity	$ 5,141	$ 197	$ 139	$ 5,199

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, available for sale				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 6,236	$ 1,355	$ 13	$ 7,578
Obligations of U.S. states and their political subdivisions	891	32	12	911
Foreign government bonds	32,585	2,266	112	34,739
Corporate securities	87,028	1,630	9,604	79,054
Asset-backed securities	16,057	109	4,174	11,992
Commercial mortgage-backed securities	12,381	5	2,334	10,052
Residential mortgage-backed securities	13,513	450	233	13,730
Total fixed maturities, available for sale	$ 168,691	$ 5,847	$ 16,482	$ 158,056
Equity securities, available for sale	$ 7,288	$ 259	$ 1,482	$ 6,065

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held to maturity				
Foreign government bonds	$ 1,093	$ 115	$	$ 1,208
Corporate securities	867	9	128	748
Asset-backed securities	782	25	1	806
Commercial mortgage-backed securities	11			11
Residential mortgage-backed securities	1,055	8	4	1,059
Total fixed maturities, held to maturity	$ 3,808	$ 157	$ 133	$ 3,832

The amortized cost and fair value of fixed maturities by contractual maturities at September 30, 2009, are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Due in one year or less	$ 6,836	$ 6,899	$ 11	$ 11
Due after one year through five years	34,192	34,959		
Due after five years through ten years	33,050	33,625	46	46
Due after ten years	58,865	61,277	1,913	1,820
Asset-backed securities	13,355	10,534	1,031	1,040
Commercial mortgage-backed securities	11,200	11,026	452	551

Residential mortgage-backed securities	12,194	12,570	1,688	1,731
Total	$ 169,692	$ 170,890	$ 5,141	$ 5,199

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 gross investment gains (losses), as well as losses on impairments of both fixed maturities and equity securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Fixed maturities, available for sale:				
Proceeds from sales	$ 3,354	$ 12,222	$ 19,997	$ 48,659
Proceeds from maturities/repayments	4,916	5,169	13,342	15,364
Gross investment gains from sales, prepayments and maturities	150	191	779	682
Gross investment losses from sales and maturities	(98)	(171)	(474)	(565)
Fixed maturities, held to maturity:				
Proceeds from maturities/repayments	$ 113	$ 82	$ 281	$ 193
Gross investment gains from prepayments				
Fixed maturity and equity security impairments:				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (360)	$ (452)	$ (1,464)	$ (1,652)
Writedowns for other-than-temporary impairment losses on equity securities	$ (223)	$ (85)	$ (979)	$ (415)

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

As discussed in Note 2, a portion of certain other-than-temporary impairment (OTTI) losses on fixed maturity securities are recognized in Other comprehensive income (loss) (OCI). The net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following 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 for the periods indicated.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated 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 September 30, 2009	Nine Months Ended September 30, 2009
	(in millions)	
Balance, beginning of period	$ 1,522	$
Credit losses remaining in retained earnings related to adoption of new authoritative guidance on January 1, 2009		658
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(60)	(151)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(3)	(9)
Credit loss impairment recognized in the current period on securities not previously impaired	81	639
Additional credit loss impairments recognized in the current period on securities previously impaired	209	603
Increases due to the passage of time on previously recorded credit losses	13	29
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(17)	(24)
Balance, September 30, 2009	$ 1,745	$ 1,745

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

Trading Account Assets Supporting Insurance Liabilities

The following table sets forth the composition of Trading account assets supporting insurance liabilities as of the dates indicated:

	September 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Short-term investments and cash equivalents	$ 868	$ 867	$ 1,232	$ 1,232
Fixed maturities:				
Corporate securities	8,890	9,114	8,814	7,971
Commercial mortgage-backed securities	2,101	2,091	2,335	2,092
Residential mortgage-backed securities	1,346	1,348	708	684
Asset-backed securities	971	787	915	635

Foreign government bonds	560	571	416	420
U.S. government authorities and agencies and obligations of U.S. states	158	151	147	143
Total fixed maturities	14,026	14,062	13,335	11,945
Equity securities	1,031	919	1,074	698
Total trading account assets supporting insurance liabilities	$ 15,925	$ 15,848	$ 15,641	$ 13,875

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income was $692 million and $(510) million during the three months ended September 30, 2009 and 2008, respectively, and $1,689 million and $(846) million during the nine months ended September 30, 2009 and 2008, respectively.

Other Trading Account Assets

The following table sets forth the composition of the Company s other trading account assets as of the dates indicated:

	September 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Short-term investments and cash equivalents	$ 3	$ 3	$ 7	$ 7
Fixed maturities:				
Asset-backed securities	1,543	1,490	423	308
Residential mortgage-backed securities	282	136	278	150
Corporate securities	338	347	230	204
Commercial mortgage-backed securities	228	128	217	136
U.S. government authorities and agencies and obligations of U.S. states	167	171	102	106
Foreign government bonds	22	23	32	33
Total fixed maturities	2,580	2,295	1,282	937
Derivative instruments and other	1,068	1,293	2,949	3,250
Equity securities	217	232	144	142
Total other trading account assets	$ 3,868	$ 3,823	$ 4,382	$ 4,336

The net change in unrealized gains (losses) from other trading account assets still held at period end, recorded within Asset management fees and other income was $54 million and $(130) million during the three months ended September 30, 2009 and 2008, respectively, and $1 million and $(26) million during the nine months ended September 30, 2009 and 2008, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Investment Income

Net investment income for the three and nine months ended September 30, 2009 and 2008 was from the following sources:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(in millions)			
Fixed maturities, available for sale	$ 2,024	$ 2,105	$ 6,148	$ 6,324
Fixed maturities, held to maturity	37	21	105	66
Equity securities, available for sale	80	87	236	252
Trading account assets	196	196	589	598
Commercial mortgage and other loans	480	497	1,448	1,453
Policy loans	144	139	422	408
Broker-dealer related receivables	4	39	15	122
Short-term investments and cash equivalents	25	127	122	409
Other long-term investments	(16)	(62)	(174)	69
Gross investment income	2,974	3,149	8,911	9,701
Less: Investment expenses	(116)	(218)	(363)	(718)
Net investment income	$ 2,858	$ 2,931	$ 8,548	$ 8,983

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and nine months ended September 30, 2009 and 2008 were from the following sources:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(in millions)			
Fixed maturities	$ (308)	$ (432)	$ (1,159)	$ (1,535)
Equity securities	(123)	(149)	(942)	(508)
Commercial mortgage and other loans	(134)	(25)	(463)	(103)
Investment real estate	(26)	(9)	(47)	(9)

Joint ventures and limited partnerships	9	(19)	(44)	(34)
Derivatives(1)	121	349	52	78
Other	4	12	16	28
Realized investment gains (losses), net	$ (457)	$ (273)	$ (2,587)	$ (2,083)

(1) Includes the offset of hedged items in effective hedge relationships prior to maturity or termination.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains and losses on securities classified as available for sale and certain other long-term investments and other assets are included in the Consolidated Statements of Financial Position as a component of Accumulated other comprehensive income (loss), or AOCI. Changes in these amounts include reclassification adjustments to exclude from Other comprehensive income (loss) those items that are included as part of Net income for a period that had been part of Other comprehensive income (loss) in earlier periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows:

Net Unrealized Investment Gains and Losses on Fixed Maturity Securities on which an OTTI loss has been recognized

	Net Unrealized Gains (Losses) On Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements and Valuation of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2008	$	$	$	$	$	$
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(1,139)	9	1		388	(741)
Net investment gains (losses) on investments arising during the period	413				(149)	264
Reclassification adjustment for (gains) losses included in net income	983				(354)	629
Reclassification adjustment for OTTI losses excluded from net income(1)	(1,574)				567	(1,007)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and valuation of business acquired		190			(68)	122
Impact of net unrealized investment (gains) losses on future policy benefits			7		(2)	5
Impact of net unrealized investment (gains) losses on policyholders dividends						
Balance, September 30, 2009	$ (1,317)	$ 199	$ 8	$	$ 382	$ (728)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) On Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements and Valuation of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2008	$ (11,893)	$ 1,479	$ (384)	$ 431	$ 3,632	$ (6,735)
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(322)	15	4	418	(33)	82
Net investment gains (losses) on investments arising during the period	12,526				(4,231)	8,295
Reclassification adjustment for (gains) losses included in net income	1,147				(413)	734
Reclassification adjustment for OTTI losses excluded from net income(2)	1,574				(567)	1,007
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and valuation of business acquired		(2,298)			804	(1,494)
Impact of net unrealized investment (gains) losses on future policy benefits			(214)		75	(139)
Impact of net unrealized investment (gains) losses on policyholders dividends				(849)	298	(551)
Balance, September 30, 2009	$ 3,032	$ (804)	$ (594)	$	$ (435)	$ 1,199

(1) Includes cash flow hedges. See Note 14 for information on cash flow hedges.
(2) Represents transfers out related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

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

	September 30, 2009	December 31, 2008
	(in millions)	

Fixed maturity securities on which an OTTI loss has been recognized	$ (1,317)	$
Fixed maturity securities, available for sale-all other	2,515	(10,635)
Equity securities, available for sale	708	(1,223)
Derivatives designated as cash flow hedges(1)	(328)	(227)
Other investments(2)	137	192
Net unrealized gains (losses) on investments	$ 1,715	$ (11,893)

(1) See Note 14 for more information on cash flow hedges.
(2) Includes $233 million of net unrealized losses on held to maturity securities that were transferred from available-for-sale.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Duration of Gross Unrealized Loss Positions for Fixed Maturities

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

	September 30, 2009					
	Less than twelve months(2)		Twelve months or more(2)		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 1,576	$ 123	$ 34	$ 5	$ 1,610	$ 128
Obligations of U.S. states and their political subdivisions	5		8		13	
Foreign government bonds	6,163	104	290	23	6,453	127
Corporate securities	4,810	351	21,543	2,695	26,353	3,046
Commercial mortgage-backed securities	417	42	5,342	304	5,759	346
Asset-backed securities	2,783	1,023	5,166	1,966	7,949	2,989
Residential mortgage-backed securities	444	19	1,163	114	1,607	133
Total	$ 16,198	$ 1,662	$ 33,546	$ 5,107	$ 49,744	$ 6,769

(1) Includes $1,316 million of fair value and $139 million of gross unrealized losses at September 30, 2009 on securities classified as held to maturity, which are not reflected in accumulated other comprehensive income.
(2) The month count for aging of unrealized losses was reset back to historical unrealized loss month counts for securities impacted by the adoption of new authoritative guidance related to other-than-temporary impairments of debt securities on January 1, 2009.

	December 31, 2008					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 994	$ 13	$	$	$ 994	$ 13
Obligations of U.S. states and their political subdivisions	299	11	7	1	306	12
Foreign government bonds	3,580	72	294	40	3,874	112
Corporate securities	36,549	4,508	17,707	5,224	54,256	9,732
Commercial mortgage-backed securities	6,537	1,380	3,407	954	9,944	2,334
Asset-backed securities	4,925	1,791	5,910	2,384	10,835	4,175
Residential mortgage-backed securities	824	109	1,557	128	2,381	237

Total	$ 53,708	$ 7,884	$ 28,882	$ 8,731	$ 82,590	$ 16,615

(1) Includes $926 million of fair value and $133 million of gross unrealized losses at December 31, 2008 on securities classified as held to maturity, which are not reflected in accumulated other comprehensive income.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The gross unrealized losses at September 30, 2009 and December 31, 2008 are composed of $4,019 million and $12,863 million related to investment grade securities and $2,750 million and $3,752 million related to below investment grade securities, respectively. At September 30, 2009, $3,764 million of the gross unrealized losses represented declines in value of greater than 20%, $403 million of which had been in that position for less than six months, as compared to $11,505 million at December 31, 2008 that represented declines in value of greater than 20%, $10,509 million of which had been in that position for less than six months. At September 30, 2009, the $5,107 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, manufacturing, finance, and services sectors of the Company s corporate securities. At December 31, 2008, the $8,731 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing and utilities sectors of the Company s corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at September 30, 2009 or December 31, 2008. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts. At September 30, 2009, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

Duration of Gross Unrealized Loss Positions for Equity Securities

The following tables show the fair value and gross unrealized losses aggregated by length of time that individual equity securities have been in a continuous unrealized loss position, as of the dates indicated:

	September 30, 2009					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Equity securities, available for sale	$ 1,258	$ 103	$ 737	$ 108	$ 1,995	$ 211

	December 31, 2008					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Equity securities, available for sale	$ 3,978	$ 1,419	$ 263	$ 63	$ 4,241	$ 1,482

At September 30, 2009, $75 million of the gross unrealized losses represented declines of greater than 20%, $20 million of which had been in that position for less than six months. At December 31, 2008, $1,227 million of the gross unrealized losses represented declines of greater than 20%, $1,086 million of which had been in that position for less than six months. Securities with fair value of $737 million and $263 million and gross unrealized losses of $108 million and $63 million that have been in a continuous unrealized loss position for twelve months or more as of September 30, 2009 and December 31, 2008, respectively, represent perpetual preferred securities, which have characteristics of both debt and

equity securities and to which an impairment model similar to the Company s fixed maturities is applied. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these securities was not warranted at September 30, 2009 or December 31, 2008.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

5. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special purpose entities and other entities that are deemed to be variable interest entities (VIEs). A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control the entity, the obligation to absorb the entity s expected losses and the right to receive the entity s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE. If the Company determines that it stands to absorb a majority of the VIE s expected losses or to receive a majority of the VIE s expected residual returns, the Company would be deemed to be the VIE s primary beneficiary and would be required to consolidate the VIE.

Consolidated Variable Interest Entities for which the Company is the Sponsor

The Company is the sponsor of certain asset-backed investment vehicles (commonly referred to as collateralized debt obligations, or CDOs) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures which the Company s asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company sells or syndicates investments through these vehicles, principally as part of the proprietary investing activity of the Company s asset management businesses. Additionally, the Company may invest in debt or equity securities issued by these vehicles. CDOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company analyzes these relationships to determine whether or not it absorbs the majority of expected losses or receives the majority of the expected residual returns, and thus is the primary beneficiary. This analysis includes a review of the Company s size and relative position in the capital structure and/or a review of cash flow projections driven by assumptions regarding the underlying collateral including default rate, recovery rate, deal call probability, reinvestment rates and fees and expenses. The Company has not provided material financial or other support that was not contractually required to any VIE for which it is the sponsor.

The Company has determined that it is the primary beneficiary of certain VIEs that it sponsors, including one CDO and certain other investment structures, as it absorbs a majority of the expected losses or receives the majority of the expected residual returns. The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs for which the Company is the sponsor are reported. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIE.

	September 30, 2009	December 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 76	$ 29
Other trading account assets	7	
Commercial mortgage and other loans	408	450
Other long-term investments	11	100
Cash and cash equivalents	47	1
Accrued investment income	2	2

Other assets	2	5
Separate account assets	54	91
Total assets of consolidated VIEs	$ 607	$ 678
Other liabilities	$ 412	$ 424
Separate account liabilities	54	91
Total liabilities of consolidated VIEs	$ 466	$ 515

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Unconsolidated Variable Interest Entities for which the Company is the Sponsor

The Company has also determined that it is not the primary beneficiary of certain VIEs that it sponsors, including certain CDOs and other investment structures, as it will not absorb a majority of the expected losses or receive the majority of the expected residual returns. The Company s maximum exposure to loss resulting from its relationship with unconsolidated VIEs it sponsors is limited to its investment in the VIEs, which was $392 million and $674 million at September 30, 2009 and December 31, 2008, respectively. The Company s maximum exposure to loss decreased from December 31, 2008, reflecting the redemption of a fixed income fund as of September 30, 2009. These investments are reflected in Fixed maturities, available for sale and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was $6,913 million and $5,916 million as of September 30, 2009 and December 31, 2008, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

Consolidated Variable Interest Entities for which the Company is not the Sponsor

The Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but over which the Company does not exercise control and is not the sponsor. Included among these structured investments are structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company s position in the capital structure and/or relative size indicates that the Company is the primary beneficiary. The Company has not provided material financial or other support that was not contractually required to these VIEs. The table below reflects the carrying amount and balance sheet caption in which the assets of consolidated VIEs for which the Company is not the sponsor are reported. The liabilities of consolidated VIEs for which the Company is not the sponsor are included in Other liabilities and are also reflected in the table below. These liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of each consolidated VIE have recourse only to the assets of that VIE. As reflected in the table below, total assets of consolidated VIEs for which the Company is not a sponsor decreased from December 31, 2008 to September 30, 2009, reflecting the deconsolidation of a VIE that manages investments in the European market. The assets held by the VIE were distributed to the Company during March 2009.

	September 30, 2009	December 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 111	$ 124
Fixed maturities, held to maturity	1,024	1,012
Other trading account assets		404
Other long-term investments	(26)	43
Cash and cash equivalents		79
Accrued investment income	4	8
Other assets		55
Total assets of consolidated VIEs	$ 1,113	$ 1,725
Total liabilities of consolidated VIEs	$	$ 61

In addition, not reflected in the table above, the Company has created a trust that is a VIE, to facilitate Prudential Insurance s Funding Agreement Notes Issuance Program (FANIP). The trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance with the proceeds of such notes.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The trust is the beneficiary of an indemnity agreement with the Company that provides that the Company is responsible for costs related to the notes issued with limited exception. As a result, the Company has determined that it is the primary beneficiary of the trust, which is therefore consolidated.

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust s medium-term note liability of $5,484 million and $7,130 million at September 30, 2009 and December 31, 2008, respectively, is classified within Policyholders account balances. Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support that was not contractually required to the trust.

Significant Variable Interests in Unconsolidated Variable Interest Entities for which the Company is not the Sponsor

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the sponsor. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company s maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to its relative size and position in the capital structure of these entities.

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE s portfolio of assets and related investment activity. The market value of these VIEs was approximately $8 billion as of both September 30, 2009 and December 31, 2008, and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available for sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. The Company s variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company s maximum exposure to loss from these interests was $890 million and $1,095 million at September 30, 2009 and December 31, 2008, respectively, which includes the fair value of the embedded derivatives.

6. CLOSED BLOCK

On the date of demutualization, Prudential Insurance established a Closed Block for certain individual life insurance policies and annuities issued by Prudential Insurance in the U.S. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block Business.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the effective date of the Plan of Reorganization and for which Prudential Insurance is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses, and taxes and to provide

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders in the future may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to stockholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

The excess of Closed Block Liabilities over Closed Block Assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in Accumulated other comprehensive income (loss)) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales in the future, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings. As of January 1, 2009, the Company recognized an adjusted cumulative earnings policyholder dividend obligation of $851 million to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings, which reflects a cumulative adjustment of $418 million related to the Company s adoption of the revised authoritative guidance for the recognition and presentation of other-than-temporary impairments, effective January 1, 2009. See Note 2 for more information on the adoption of the new authoritative guidance for the recognition and presentation of other-than-temporary impairments. However, due to the accumulation of net unrealized investment losses as of December 31, 2008 that had arisen subsequent to the establishment of the Closed Block, the total policyholder dividend obligation balance was reduced to zero through Accumulated other comprehensive income (loss). As of September 30, 2009, actual cumulative earnings are below the expected cumulative earnings by $690 million, thereby eliminating the cumulative earnings policyholder dividend obligation. Furthermore, the accumulation of net unrealized investment gains as of September 30, 2009 that have arisen subsequent to the establishment of the Closed Block, are not sufficient to overcome the cumulative earnings shortfall, and therefore, the policyholder dividend obligation balance remains at zero. See the table below for changes in the components of the policyholder dividend obligation for the nine months ended September 30, 2009.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block Liabilities and Assets designated to the Closed Block, as well as maximum future earnings to be recognized from Closed Block Liabilities and Closed Block Assets, are as follows:

	September 30, 2009	December 31, 2008
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 51,687	$ 51,763
Policyholders dividends payable	1,096	1,036
Policyholder dividend obligation		
Policyholders account balances	5,592	5,622
Other Closed Block liabilities	5,712	5,724
Total Closed Block Liabilities	64,087	64,145
Closed Block Assets		
Fixed maturities, available for sale, at fair value	38,489	35,345
Other trading account assets, at fair value	166	120
Equity securities, available for sale, at fair value	2,902	2,354
Commercial mortgage and other loans	7,885	8,129
Policy loans	5,436	5,423
Other long-term investments	1,623	1,676
Short-term investments	1,639	1,340
Total investments	58,140	54,387
Cash and cash equivalents	1,290	1,779
Accrued investment income	666	615
Other Closed Block assets	641	409
Total Closed Block Assets	60,737	57,190
Excess of reported Closed Block Liabilities over Closed Block Assets	3,350	6,955
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	353	(4,371)
Allocated to policyholder dividend obligation		433
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 3,703	$ 3,017

Information regarding the policyholder dividend obligation is as follows:

Nine Months Ended September 30,

	2009 (in millions)
Balance, January 1, 2009	$
Impact from earnings allocable to policyholder dividend obligation	(851)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	851
Balance, September 30, 2009	$

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three and nine months ended September 30, 2009 and 2008 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Revenues				
Premiums	$ 738	$ 819	$ 2,378	$ 2,640
Net investment income	733	784	2,161	2,425
Realized investment gains (losses), net	(22)	125	(1,250)	(319)
Other income	36	(8)	88	19
Total Closed Block revenues	1,485	1,720	3,377	4,765
Benefits and Expenses				
Policyholders benefits	839	940	2,743	3,005
Interest credited to policyholders account balances	36	35	106	105
Dividends to policyholders	539	745	795	1,402
General and administrative expenses	139	150	427	482
Total Closed Block benefits and expenses	1,553	1,870	4,071	4,994
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	(68)	(150)	(694)	(229)
Income tax expense (benefit)	(6)	(150)	(8)	(211)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	(62)		(686)	(18)
Income from discontinued operations, net of taxes				
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ (62)	$	$ (686)	$ (18)

7. EQUITY

The Company has outstanding two classes of common stock: the Common Stock and the Class B Stock. The changes in the number of shares issued, held in treasury and outstanding are as follows for the periods indicated:

	Common Stock			Class B Stock
	Issued	Held In Treasury	Outstanding	Issued and Outstanding
		(in millions)		
Balance, December 31, 2008	604.9	183.6	421.3	2.0
Common Stock issued(1)	36.9		36.9	
Common Stock acquired				
Stock-based compensation programs(2)		(3.1)	3.1	
Balance, September 30, 2009	641.8	180.5	461.3	2.0

(1) In June 2009, the Company issued 36,858,975 shares of Common Stock in a public offering at a price of $39.00 per share for net proceeds of $1.391 billion.

(2) Represents net shares issued from treasury pursuant to the Company s stock-based compensation programs.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Comprehensive Income

The components of comprehensive income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Net income (loss)	$ 1,032	$ (171)	$ 1,215	$ 502
Other comprehensive income (loss), net of taxes:				
Change in foreign currency translation adjustments	333	(349)	193	(89)
Change in net unrealized investment gains (losses)(1)	4,763	(2,041)	7,865	(4,205)
Change in pension and postretirement unrecognized net periodic benefit	8	11	26	22
Other comprehensive income (loss)(2)	5,104	(2,379)	8,084	(4,272)
Comprehensive income (loss)	6,136	(2,550)	9,299	(3,770)
Comprehensive (income) loss attributable to noncontrolling interests	42	(9)	61	(40)
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ 6,178	$ (2,559)	$ 9,360	$ (3,810)

(1) Includes cash flow hedges of $(36) million and $71 million for the three months ended September 30, 2009 and 2008, respectively and $(66) million and $18 million for the nine months ended September 30, 2009 and 2008, respectively.
(2) Amounts are net of tax expense (benefit) of $2,578 million and $(967) million for the three months ended September 30, 2009 and 2008, respectively and $4,070 million and $(2,123) million for the nine months ended September 30, 2009 and 2008, respectively.

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the nine months ended September 30, 2009 and 2008 are as follows (net of taxes):

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income(Loss)
	(in millions)			
Balance, December 31, 2008	$ 375	$ (6,735)	$ (983)	$ (7,343)
Change in component during period	210	7,865	26	8,101

Impact of adoption of new guidance for other-than-temporary impairments of debt securities(2)		(659)		(659)
Balance, September 30, 2009	$ 585	$ 471	$ (957)	$ 99

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income(Loss)
	(in millions)			
Balance, December 31, 2007	$ 312	$ 400	$ (265)	$ 447
Change in component during period	(92)	(4,205)	22	(4,275)
Balance, September 30, 2008	$ 220	$ (3,805)	$ (243)	$ (3,828)

(1) Includes cash flow hedges of $(213) million and $(147) million as of September 30, 2009 and December 31, 2008, respectively and $(155) million and $(173) million as of September 30, 2008 and December 31, 2007, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

(2) See Note 2 for additional information on the adoption of new guidance for other-than-temporary impairments of debt securities.

8. EARNINGS PER SHARE

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock.

Net income for the Financial Services Businesses and the Closed Block Business is determined in accordance with U.S. GAAP and includes general and administrative expenses charged to each of the respective businesses based on the Company s methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses.

The direct equity adjustments modify the earnings available to each of the classes of common stock for earnings per share purposes.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Common Stock

A reconciliation of the numerators and denominators of the basic and diluted per share computations is as follows:

	Three Months Ended September 30,					
	2009			2008		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations attributable to the Financial Services Businesses	$ 1,044			$ (118)		
Direct equity adjustment	12			10		
Less: Income (loss) attributable to noncontrolling interests	(50)			5		
Less: Earnings allocated to participating unvested share-based payment awards	12					
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,094	461.2	$ 2.37	$ (113)	423.8	$ (0.27)
Effect of dilutive securities and compensation programs(1)						
Interest, net of tax, on Exchangeable Surplus Notes	$ 1			$		
Add: Earnings allocated to participating unvested share-based payment awards Basic	12					
Less: Earnings allocated to participating unvested share-based payment awards Diluted	12					
Stock options		2.4				
Deferred and long-term compensation programs		0.3				
Exchangeable Surplus Notes		0.7				
Diluted earnings per share(1)						
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,095	464.6	$ 2.36	$ (113)	423.8	$ (0.27)

(1) For the three months ended September 30, 2008, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a loss from continuing operations is reported. As a result of the loss from continuing operations available to holders of Common Stock after direct equity adjustment for the three months ended September 30, 2008, all potential stock options and compensation programs were considered antidilutive.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30,					
	2009			2008		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income from continuing operations attributable to the Financial Services Businesses	$ 1,561			$ 549		
Direct equity adjustment	34			36		
Less: Income (loss) attributable to noncontrolling interests	(44)			37		
Less: Earnings allocated to participating unvested share-based payment awards	18			3		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,621	438.8	$ 3.69	$ 545	432.6	$ 1.26
Effect of dilutive securities and compensation programs						
Add: Earnings allocated to participating unvested share-based payment awards Basic	$ 18			$ 3		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	18			3		
Stock options		1.2			3.6	
Deferred and long-term compensation programs		0.6			0.9	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,621	440.6	$ 3.68	$ 545	437.1	$ 1.25

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. Earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2009 was based on 5.3 million of such awards, weighted for the period they were outstanding. For the three months ended September 30, 2008, earnings were not allocated to participating unvested share-based payment awards as these securities do not participate in losses. Earnings allocated to participating unvested share-based payment awards for the nine months ended September 30, 2009 and 2008 was based on 4.9 million and 2.6 million of such awards, respectively, weighted for the period they were outstanding. The computation of earnings per share of Common Stock excludes the dilutive impact of participating unvested share-based awards based on the application of the two-class method.

For the three months ended September 30, 2009, 10.4 million options, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $72.65 per share, were excluded from the computation of diluted earnings per share because the options,

based on application of the treasury stock method, were antidilutive. For the three months ended September 30, 2008, 17.9 million options and 4.2 million shares

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

related to deferred and long-term compensation programs, weighted for the portion of the period they were outstanding, are considered antidilutive as a result of the loss from continuing operations available to holders of Common Stock after direct equity adjustment. For the nine months ended September 30, 2009 and 2008, 14.1 million and 6.0 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $62.87 and $80.57 per share, respectively were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive.

On September 18, 2009, the Company issued $500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The exchange rate used in the diluted earnings per share calculation for the surplus notes is 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, is added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive. For the nine months ended September 30, 2009, the hypothetical impact of these shares was antidilutive and therefore excluded from the computation of diluted earnings per share. See Note 9 for additional information regarding the exchangeable surplus notes.

The Company s convertible senior notes provide for the Company to issue shares of its Common Stock as a component of the conversion of the notes. As of September 30, 2009, $4 million of senior notes related to the $2.0 billion December 2006 issuance remain outstanding. These will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above the initial conversion price of $104.21. As of September 30, 2009, $31 million of senior notes related to the $3.0 billion December 2007 issuance remain outstanding. These senior notes will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above the initial conversion price of $132.39. See Note 9 for additional information regarding the convertible senior notes.

Class B Stock

Income (loss) from continuing operations per share of Class B Stock was $(10.00) and $(34.00) for the three months ended September 30, 2009 and 2008, respectively, and $(199.00) and $(43.50) for the nine months ended September 30, 2009 and 2008, respectively.

The income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the three months ended September 30, 2009 and 2008 amounted to $(20) million and $(68) million, respectively. The direct equity adjustment resulted in a decrease in the income (loss) from continuing operations attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes of $12 million and $10 million for the three months ended September 30, 2009 and 2008, respectively. The income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the nine months ended September 30, 2009 and 2008 amounted to $(398) million and $(87) million, respectively. The direct equity adjustment resulted in a decrease in the income (loss) from continuing operations attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes of $34 million and $36 million for the nine months ended September 30, 2009 and 2008, respectively. For the three and nine months ended September 30, 2009 and 2008, the weighted average number of shares of Class B Stock used in the calculation of earnings per share amounted to 2.0 million. There are no potentially dilutive shares associated with the Class B Stock.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

9. SHORT-TERM AND LONG-TERM DEBT

Commercial Paper

Prudential Financial has a commercial paper program rated A-1 by Standard & Poor s Rating Services (S&P), P-2 by Moody s Investor Service, Inc. (Moody s) and F2 by Fitch Ratings Ltd. (Fitch) as of September 30, 2009. Prudential Financial s outstanding commercial paper borrowings were $209 million and $1,243 million as of September 30, 2009 and December 31, 2008, respectively.

Prudential Funding, LLC, a wholly owned subsidiary of Prudential Insurance, has a commercial paper program, rated A-1+ by S&P, P-2 by Moody s and F1 by Fitch as of September 30, 2009. Prudential Funding s outstanding commercial paper and master note borrowings were $716 million and $4,354 million as of September 30, 2009 and December 31, 2008, respectively. Prudential Financial has issued a subordinated guarantee covering Prudential Funding s domestic commercial paper program.

As of September 30, 2009 and December 31, 2008, the weighted average maturity of the total commercial paper outstanding was 49 and 29 days, respectively.

Both Prudential Financial s and Prudential Funding s commercial paper programs were granted approval during the fourth quarter of 2008 to participate in the Commercial Paper Funding Facility (CPFF) sponsored by the Federal Reserve Bank of New York. Commercial paper programs must maintain ratings of at least A-1/P-1/F1 by at least two rating agencies in order to be eligible for the CPFF. As of September 30, 2009, neither Prudential Financial nor Prudential Funding had any commercial paper outstanding under the CPFF. On February 19, 2009, the commercial paper credit rating of Prudential Financial was downgraded by Fitch from F1 to F2. Consequently, as of that date, Prudential Financial became ineligible to issue commercial paper under the CPFF. Prudential Funding continues to be eligible based on its current credit ratings to sell to the CPFF three-month unsecured U.S. dollar denominated commercial paper up to a maximum of $9.815 billion, less the outstanding amount of any non-CPFF commercial paper at any applicable time. Access to the CPFF for the issuance of new commercial paper is scheduled to terminate on February 1, 2010, unless such date is extended by the Federal Reserve Bank of New York.

Convertible Senior Notes

On December 12, 2007, Prudential Financial issued in a private placement $3.0 billion of floating rate convertible senior notes that are convertible by the holders at any time after issuance into cash and shares of Prudential Financial s Common Stock. The conversion price, $132.39 per share, is subject to adjustment upon certain corporate events. The conversion feature requires net settlement in shares; therefore, upon conversion, a holder would receive cash up to the par amount of the convertible notes surrendered for conversion and shares of Prudential Financial Common Stock only for the portion of the settlement amount in excess of the par amount, if any. These notes are redeemable by

Prudential Financial, at par plus accrued interest, on or after June 16, 2009. Holders of the notes may also require Prudential Financial to repurchase the notes, at par plus accrued interest, on contractually specified dates, of which the first such date was June 15, 2009. On June 15, 2009, $1,819 million of these notes were repurchased by Prudential Financial as required by the holders. The next date on which holders of these notes may require Prudential Financial to repurchase these notes is December 15, 2009. Separately, during the fourth quarter of 2008 and the first nine months of 2009, the Company repurchased, in individually negotiated transactions, $853 million and $297 million, respectively, of these notes which were offered to the Company by certain holders. The notes repurchased in 2009 at a discount resulted in a pre-tax gain of $7 million that is recorded within Asset management fees and other income. As of September 30, 2009, $31 million of these floating rate convertible senior notes remain outstanding. In addition, as of September 30, 2009, $4 million

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

of floating rate convertible senior notes that were issued by Prudential Financial in a private placement in December 2006 remain outstanding. The next date on which holders of these notes may require Prudential Financial to repurchase these notes is December 12, 2009.

Medium-term Notes

In June 2009, Prudential Financial issued $250 million of 6.20% medium-term notes due January 2015 and $750 million of 7.375% medium-term notes due June 2019 under its shelf registration statement. In September 2009, Prudential Financial issued $600 million of 3.625% medium-term notes due September 2012 and $900 million of 4.75% medium-term notes due September 2015 under its shelf registration statement.

Federal Home Loan Bank of New York

Prudential Insurance has been a member of the Federal Home Loan Bank of New York (FHLBNY) since June 2008. Membership allows Prudential Insurance access to collateralized advances, collateralized funding agreements, and other FHLBNY products. Collateralized advances from the FHLBNY are classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. Collateralized funding agreements issued to the FHLBNY are classified in Policyholders account balances. These funding agreements have priority claim status above debt holders of Prudential Insurance.

Prudential Insurance s membership in FHLBNY requires the ownership of member stock, and borrowings from FHLBNY require the purchase of FHLBNY activity based stock in an amount equal to 4.5% of the outstanding borrowings. All FHLBNY stock purchased by Prudential Insurance is classified as restricted general account investments within Other long-term investments, and the carrying value of these investments was $221 million as of September 30, 2009.

The FHLBNY requires Prudential Insurance to pledge qualifying mortgage-related assets or U.S. Treasury securities as collateral for all borrowings. On May 8, 2009, the New Jersey Department of Banking and Insurance (NJDOBI) revised its prior guidance to increase the maximum amount of qualifying assets that Prudential Insurance may pledge as collateral to the FHLBNY from 5% to 7% of its prior year-end statutory net admitted assets exclusive of separate account assets; however, this limitation resets to 5% on December 31, 2010 unless extended by NJDOBI. Based on its statutory net admitted assets as of December 31, 2008, the 7% limitation equates to a maximum amount of pledged assets of $10.5 billion and an estimated maximum borrowing capacity, after taking into account applicable required collateralization levels and required purchases of activity based FHLBNY stock, of approximately $9.0 billion. However, the ability to borrow from the FHLBNY is subject to the availability and maintenance of qualifying assets at Prudential Insurance, and there is no assurance that Prudential Insurance will have sufficient qualifying assets available to it in order to access the increased capacity in full at any particular time. Also, the revised guidance from NJDOBI limits the aggregate amount of assets Prudential Insurance may pledge for all loans, including borrowings from the FHLBNY, to 10% of its prior year-end statutory net admitted assets exclusive of separate account assets; however, this limitation excludes certain activities, such as asset-based financing transactions.

The fair value of the qualifying assets pledged as collateral by Prudential Insurance must be maintained at certain specified levels of the borrowed amount, which can vary, depending on the nature of the assets pledged. As of September 30, 2009, Prudential Insurance had pledged qualifying assets with a fair value of $7,530 million, which is above the minimum level required by the FHLBNY, and had total outstanding borrowings of $3.5 billion. The total borrowings from the FHLBNY as of September 30, 2009, is comprised of collateralized advances, of which $1.0 billion is reflected in Short-term debt and $1.0 billion is reflected in Long-term debt, as well as $1.5 billion of collateralized funding agreements that are reflected in Policyholders account balances.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Exchangeable Surplus Notes

In September 2009, Prudential Insurance issued in a private placement $500 million of surplus notes due September 2019 with an interest rate of 5.36% per annum. The surplus notes are exchangeable at the option of the holder, in whole but not in part, for shares of Prudential Financial Common Stock beginning in September 2014, or earlier upon a fundamental business combination involving Prudential Financial or a continuing payment default. The initial exchange rate for the surplus notes is 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of $98.78; however, the exchange rate is subject to customary anti-dilution adjustments. The exchange rate is also subject to a make-whole decrease in the event of an exchange prior to maturity (except upon a fundamental business combination or a continuing payment default), that will result in a reduction in the number of shares issued upon exchange (per $1,000 principal amount of surplus notes) determined by dividing a prescribed cash reduction value (which will decline over the life of the surplus notes, from $102.62 for an exercise on September 18, 2014 to zero for an exercise at maturity) by the price of the Common Stock at the time of exchange. In addition, the exchange rate is subject to a customary make-whole increase in connection with an exchange of the surplus notes upon a fundamental business combination where 10% or more of the consideration in that business combination consists of cash, other property or securities that are not listed on a U.S. national securities exchange.

The surplus notes are not redeemable by Prudential Insurance prior to maturity, except in connection with a fundamental business combination involving Prudential Financial, in which case the surplus notes will be redeemable by Prudential Insurance, subject to the noteholders right to exchange the surplus notes instead, at par or, if greater, a make-whole redemption price. The surplus notes are subordinated to all other Prudential Insurance borrowings and policyholder obligations, except for other surplus notes of Prudential Insurance (including those currently outstanding), with which the surplus notes rank *pari passu*. Payments of interest and principal on the surplus notes may only be made with the prior approval of the New Jersey Department of Banking and Insurance.

TALF Borrowings

During the first nine months of 2009, the Company purchased securities under the Federal Reserve s Term Asset-Backed Securities Loan Facility (TALF). TALF provides secured financing for asset-backed securities backed by certain types of consumer and small business loans and as of July 2009 for certain high-quality commercial mortgage-backed securities issued before January 1, 2009. TALF financing is non-recourse to the borrower, is collateralized by the purchased securities and provides financing for the purchase price of the securities, less a haircut that varies based on the type of collateral. Borrowers under the program can deliver the collateralized securities to a special purpose vehicle created by the Federal Reserve in full defeasance of the loan.

During the first nine months of 2009, the Company obtained $1,167 million of secured financing from the Federal Reserve under this program. In September 2009, the Company sold a portion of the securities purchased under the program and used the proceeds to repay $188 million of the borrowings. As of September 30, 2009, the Company had $1,066 million of securities purchased under TALF that are reflected within Other trading account assets, and had $979 million of secured financing from the Federal Reserve related to the purchase of these securities that is reflected within Long-term debt. The Company is carrying the securities and the loan at fair value.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

10. EMPLOYEE BENEFIT PLANS

The Company has funded and non-funded contributory and non-contributory defined benefit pension plans, which cover substantially all of its employees. For some employees, benefits are based on final average earnings and length of service, while benefits for other employees are based on an account balance that takes into consideration age, service and earnings during their career.

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents (other postretirement benefits). The health care plan is contributory; the life insurance plan is non-contributory. Substantially all of the Company s U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service. The Company has elected to amortize its transition obligation for other postretirement benefits over 20 years.

Net periodic (benefit) cost included in General and administrative expenses includes the following components:

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 40	$ 38	$ 3	$ 3
Interest cost	115	116	29	31
Expected return on plan assets	(182)	(180)	(27)	(40)
Amortization of prior service cost	7	11	(3)	(3)
Amortization of actuarial (gain) loss, net	8	3	11	
Special termination benefits				
Net periodic (benefit) cost	$ (12)	$ (12)	$ 13	$ (9)

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 122	$ 115	$ 9	$ 9
Interest cost	345	350	87	93
Expected return on plan assets	(546)	(540)	(81)	(120)
Amortization of prior service cost	21	33	(9)	(9)

Amortization of actuarial (gain) loss, net	24	11	33	
Special termination benefits		2		
Net periodic (benefit) cost	$ (34)	$ (29)	$ 39	$ (27)

The Company made a discretionary cash contribution in October of 2009 of $95 million to an irrevocable trust, commonly referred to as a rabbi trust, which holds assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

11. SEGMENT INFORMATION

Segments

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. Within the Financial Services Businesses, the Company operates through three divisions, which together encompass seven reportable segments. The Company s real estate and relocation services business as well as businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested, including the Company s investment in Wachovia Securities, are included in Corporate and Other operations within the Financial Services Businesses. Collectively, the businesses that comprise the three operating divisions and Corporate and Other are referred to as the Financial Services Businesses.

Adjusted Operating Income

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using adjusted operating income. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below.

Adjusted operating income is calculated by adjusting each segment s income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the following items, which are described in greater detail below:

- realized investment gains (losses), net, and related charges and adjustments;
- net investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- the contribution to income/loss of divested businesses that have been or will be sold or exited but that did not qualify for discontinued operations accounting treatment under U.S. GAAP; and
- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company s definition of adjusted operating income may differ from that used by other companies. However, the Company believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Financial Services Businesses.

Realized investment gains (losses), net, and related charges and adjustments. Adjusted operating income excludes realized investment gains (losses), net, except as indicated below. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses from sales of securities. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to the Company s discretion and influenced by market opportunities, as well as the Company s tax and capital profile. Trends in the underlying profitability of the Company s businesses can be more clearly identified without the fluctuating effects of these transactions.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Charges that relate to realized investment gains (losses), net, are also excluded from adjusted operating income. The related charges are associated with: policyholder dividends; amortization of deferred policy acquisition costs, valuation of business acquired (VOBA), unearned revenue reserves and deferred sales inducements; interest credited to policyholders account balances; reserves for future policy benefits; and payments associated with the market value adjustment features related to certain of the annuity products the Company sells. The related charges associated with policyholder dividends include a percentage of the net increase in the fair value of specified assets included in Gibraltar Life s reorganization plan that is required to be paid as a special dividend to Gibraltar Life policyholders. Deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements for certain products are amortized based on estimated gross profits, which include net realized investment gains and losses on the underlying invested assets. The related charge for these items represents the portion of this amortization associated with net realized investment gains and losses. The related charges for interest credited to policyholders account balances relate to certain group life policies that pass back certain realized investment gains and losses to the policyholder. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment. Certain of the Company s annuity products contain a market value adjustment feature that requires us to pay to the contractholder or entitles us to receive from the contractholder, upon surrender, a market value adjustment based on the crediting rates on the contract surrendered compared to crediting rates on newly issued contracts or based on an index rate at the time of purchase compared to an index rate at time of surrender, as applicable. These payments mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets. The related charge represents the payments or receipts associated with these market value adjustment features.

Adjustments to Realized investment gains (losses), net, for purposes of calculating adjusted operating income, include the following:

Gains and losses pertaining to derivative contracts that do not qualify for hedge accounting treatment, other than derivatives used in the Company s capacity as a broker or dealer, are included in Realized investment gains (losses), net. This includes mark-to-market adjustments of open contracts as well as periodic settlements. As discussed further below, adjusted operating income includes a portion of realized gains and losses pertaining to certain derivative contracts.

Adjusted operating income of the International Insurance segment and International Investments segment, excluding the global commodities group, reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments non-U.S. dollar denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segments U.S. dollar equivalent earnings. Pursuant to this program, the Company s Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP and, as noted above, all resulting profits or losses from such contracts are included in Realized investment gains (losses), net. When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income (net loss of $5 million and gains of $12 million for the three months ended September 30, 2009 and 2008, respectively, and net gains of $8 million and $16 million for the nine months ended September 30, 2009 and 2008, respectively). As of September 30, 2009 and December 31, 2008, the fair value of open contracts used for this purpose was a net liability of $111 million and a net asset of $85 million, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the derivative contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in Realized investment gains (losses), net. However, the periodic swap settlements, as well as other derivative related yield adjustments, are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses recorded within Realized investment gains (losses), net are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Adjusted operating income includes net gains of $43 million and $14 million for the three months ended September 30, 2009 and 2008, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $7 million and net losses of $6 million, respectively, related to derivative contracts that were terminated or offset in prior periods. Adjusted operating income includes net gains of $100 million and $43 million for the nine months ended September 30, 2009 and 2008, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $18 million and net losses of $14 million, respectively, related to derivative contracts that were terminated or offset in prior periods. The table below reflects the total deferred gain (loss) related to derivative contracts that were terminated or offset in prior periods that will be recognized in adjusted operating income in future periods for each segment, as well as the weighted average period over which these deferred amounts will be recognized.

	As of September 30, 2009	
Segment	**Deferred amount (in millions)**	**Weighted average period**
International Insurance	$ 758	32 years
Asset Management	34	10 years
Corporate and Other	(62)	7 years
Total deferred gain (loss)	$ 730	

Certain products the Company sells are accounted for as freestanding derivatives or contain embedded derivatives. Changes in the fair value of these derivatives, along with any fees received or payments made relating to the derivative, are recorded in Realized investment gains (losses), net. These Realized investment gains (losses), net are included in adjusted operating income in the period in which the gain or loss is recorded. In addition, the changes in fair value of any associated derivative portfolio that is part of an economic hedging program related to the risk of these products (but which do not qualify for hedge accounting treatment under U.S. GAAP) are also included in adjusted operating income in the period in which the gains or losses on the derivative portfolio are recorded. Adjusted operating income includes net losses of $228 million and $101 million for the three months ended September 30, 2009 and 2008, respectively, and net gains of $630 million and net losses of $146 million for the nine months ended September 30, 2009 and 2008, respectively, related to these products and any associated derivative portfolio.

Adjustments are also made for the purposes of calculating adjusted operating income for the following items:

The Company conducts certain activities for which Realized investment gains (losses), net are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company s Asset Management segment. For example, Asset Management s proprietary investing business makes investments for sale or syndication to other investors or for placement or co-investment in

the Company s

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

managed funds and structured products. The Realized investment gains (losses), net associated with the sale of these proprietary investments, as well as related derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the Realized investment gains (losses), net associated with loans originated by the Company s commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income. Net realized investment losses of $44 million and net gains of $64 million for the three months ended September 30, 2009 and 2008, respectively, and net losses of $186 million and $19 million for the nine months ended September 30, 2009 and 2008, respectively, related to these and other businesses were included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the Company s statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income, and interest and dividend income for these investments is recorded in Net investment income. Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments, which is recorded within Asset management fees and other income, is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. In addition, the secured financing received from the Federal Reserve under TALF that is reflected within Long-term debt, is carried at fair value under the fair value option under authoritative guidance around fair value. The changes in the fair value of this debt, which is recorded within Asset management fees and other income, is also excluded from adjusted operating income and are reflected as an adjustment to Realized investment gains (losses), net. This is consistent with the securities purchased with the proceeds from this financing, which are carried at fair value and included in Other trading account assets, at fair value as discussed above. The net impact of these adjustments was net gains of $31 million and net losses of $77 million for the three months ended September 30, 2009 and 2008, respectively, and net gains of $14 million and net losses of $59 million for the nine months ended September 30, 2009 and 2008, respectively.

The Company has certain assets and liabilities for which, under GAAP, the change in value due to changes in foreign currency exchange rates during the period is recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged, the change in value included in Asset management fees and other income is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. These adjustments were net losses of $18 million and $31 million for the three months ended September 30, 2009 and 2008, respectively, and net gains of $41 million and $16 million for the nine months ended September 30, 2009 and 2008, respectively.

As a result of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc. (Lehman Brothers) on September 15, 2008, the Company experienced losses related to the unsecured portion of its counterparty exposure on derivative transactions it had entered into with Lehman Brothers and its affiliates. These losses are recorded within Asset management fees and other income within the Company s Corporate and Other operations and are excluded from adjusted operating income consistent with the adjusted operating income treatment of similar credit-related losses that are recorded within Realized investment gains (losses), net. For the three and nine months ended September 30, 2008, $75 million of these losses were recorded in Asset management fees and other income and are excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net. Any subsequent recoveries of these losses will also be excluded from adjusted operating income. There were no adjustments for the three and nine months ended September 30, 2009.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes. Certain products included in the Retirement and International Insurance segments, are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage and other loans, are classified as trading and are carried at fair value. These trading investments are reflected on the statements of financial position as Trading account assets supporting insurance liabilities, at fair value. Realized and unrealized gains and losses for these investments are reported in Asset management fees and other income. Interest and dividend income for these investments is reported in Net investment income. Commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the statements of financial position as Commercial mortgage and other loans.

Adjusted operating income excludes net investment gains and losses on trading account assets supporting insurance liabilities. This is consistent with the exclusion of realized investment gains and losses with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains and losses on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in Interest credited to policyholders account balances. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread the Company earns on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that are expected to accrue to the contractholders.

Divested businesses. The contribution to income/loss of divested businesses that have been or will be sold or exited, but that did not qualify for discontinued operations accounting treatment under U.S. GAAP, are excluded from adjusted operating income as the results of divested businesses are not relevant to understanding the Company s ongoing operating results.

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests. Equity in earnings of operating joint ventures, on a pre-tax basis, are included in adjusted operating income as these results are a principal source of earnings. These earnings are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on the Company s Unaudited Interim Consolidated Statements of Operations.

Earnings attributable to noncontrolling interests are excluded from adjusted operating income. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors, and are reflected on a U.S. GAAP basis as a separate line on the Company s Unaudited Interim Consolidated Statements of Operations.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The summary below reconciles adjusted operating income before income taxes for the Financial Services Businesses to income from continuing operations before income taxes and equity in earnings of operating joint ventures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Individual Annuities	$ 166	$ (307)	$ 615	$ (38)
Retirement	119	133	377	398
Asset Management	29	(8)	61	301
Total U.S. Retirement Solutions and Investment Management Division	314	(182)	1,053	661
Individual Life	243	238	421	437
Group Insurance	64	101	262	271
Total U.S. Individual Life and Group Insurance Division	307	339	683	708
International Insurance	500	460	1,390	1,326
International Investments	13	37	39	88
Total International Insurance and Investments Division	513	497	1,429	1,414
Corporate Operations	(207)	(34)	(475)	(79)
Real Estate and Relocation Services	6	(4)	(54)	(30)
Total Corporate and Other	(201)	(38)	(529)	(109)
Adjusted Operating Income before income taxes for Financial Services Businesses	933	616	2,636	2,674
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(183)	(564)	(1,765)	(1,756)
Charges related to realized investment gains (losses), net	(51)	17	(12)	45
Investment gains (losses) on trading account assets supporting insurance liabilities, net	694	(534)	1,525	(919)
Change in experience-rated contractholder liabilities due to asset value changes	(458)	388	(850)	682
Divested businesses	25	(219)	(31)	(276)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(92)	213	(75)	145
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	868	(83)	1,428	595
	(16)	(113)	(572)	(101)

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business				
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 852	$ (196)	$ 856	$ 494

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The U.S. Retirement Solutions and Investment Management Division and U.S. Individual Life and Group Insurance Division results reflect deferred policy acquisition costs as if the individual annuity business and group insurance business were stand-alone operations. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.

The summary below presents revenues for the Company s reportable segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Financial Services Businesses:				
Individual Annuities	$ 424	$ 528	$ 2,431	$ 1,723
Retirement	1,101	1,118	3,539	3,592
Asset Management	291	345	896	1,457
Total U.S. Retirement Solutions and Investment Management Division	1,816	1,991	6,866	6,772
Individual Life	656	682	2,039	2,038
Group Insurance	1,356	1,232	3,992	3,707
Total U.S. Individual Life and Group Insurance Division	2,012	1,914	6,031	5,745
International Insurance	2,668	2,226	7,738	6,880
International Investments	108	151	317	469
Total International Insurance and Investments Division	2,776	2,377	8,055	7,349
Corporate Operations	(59)	3	(116)	82
Real Estate and Relocation Services	51	68	102	177
Total Corporate and Other	(8)	71	(14)	259
Total	6,596	6,353	20,938	20,125
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(183)	(564)	(1,765)	(1,756)
Charges related to realized investment gains (losses), net	(80)	2	(141)	18
Investment gains (losses) on trading account assets supporting insurance liabilities, net	694	(534)	1,525	(919)
Divested businesses	32	(213)	(10)	(230)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(43)	208	(31)	108

Total Financial Services Businesses	7,016	5,252	20,516	17,346
Closed Block Business	1,548	1,778	3,513	4,945
Total per Unaudited Interim Consolidated Financial Statements	$ 8,564	$ 7,030	$ 24,029	$ 22,291

The Asset Management segment revenues include intersegment revenues of $89 million and $84 million for the three months ended September 30, 2009 and 2008, respectively, and $258 million and $264 million for the nine months ended September 30, 2009 and 2008, respectively, primarily consisting of asset-based management and administration fees. Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The summary below presents total assets for the Company s reportable segments as of the periods indicated:

	September 30, 2009	December 31, 2008
	(in millions)	
Individual Annuities	$ 78,465	$ 65,516
Retirement	124,761	113,622
Asset Management	31,066	36,504
Total U.S. Retirement Solutions and Investment Management Division	234,292	215,642
Individual Life	36,028	31,781
Group Insurance	32,373	31,657
Total U.S. Individual Life and Group Insurance Division	68,401	63,438
International Insurance	84,323	76,362
International Investments	6,954	8,716
Total International Insurance and Investments Division	91,277	85,078
Corporate Operations	14,386	14,465
Real Estate and Relocation Services	661	1,003
Total Corporate and Other	15,047	15,468
Total Financial Services Businesses	409,017	379,626
Closed Block Business	66,450	65,385
Total per Unaudited Interim Consolidated Financial Statements	$ 475,467	$ 445,011

12. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance around fair value established a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available. Active markets are defined as having the following for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company s Level 1 assets and liabilities primarily include certain cash equivalents and short term investments, equity securities and derivative contracts that are traded in an active exchange market. Prices are obtained from readily available sources for market transactions involving identical assets or liabilities.

Level 2 Fair value is based on significant inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Level 3 Fair value is based on at least one or more significant unobservable inputs for the asset or liability. These inputs reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability. The Company s Level 3 assets and liabilities primarily include: certain asset-backed securities collateralized by sub-prime mortgages as discussed below, certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company s understanding of the market, and are generally considered Level 3. Under certain conditions, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company may choose to over-ride the third-party pricing information or quotes received and apply internally developed values to the related assets or liabilities. To the extent the internally developed valuations use significant unobservable inputs, they are classified as Level 3. As of September 30, 2009 and December 31, 2008 these over-rides on a net basis were not material.

Inactive Markets During the second and third quarter of 2009, the Company observed that the volume and level of activity in the market for asset-backed securities collateralized by sub-prime mortgages remained at historically low levels. This stood in particular contrast to the markets for other structured products with similar cash flow and credit profiles, which experienced an increase in the level of activity beginning in the second quarter of 2009. The Company also observed significant implied relative liquidity risk premiums, yields, and weighting of worst case cash flows for asset-backed securities collateralized by sub-prime mortgages in comparison with our own estimates for such securities. In contrast, the liquidity of other spread-based asset classes, such as corporate bonds, high yield and consumer asset-backed securities, such as those collateralized by credit cards or autos, which were previously more correlated with sub-prime securities, improved in the second and third quarter of 2009. Based on this information, the Company concluded as of June 30, 2009 and September 30, 2009 that the market for asset-backed securities collateralized by sub-prime mortgages was inactive and also determined the pricing quotes it received were based on little, if any, market activity, calling into question their representation of observable fair value. Furthermore, the Company s direct and indirect observations of the limited transactions that were occurring were dominated by forced liquidations or distressed sales and not executed in an orderly manner.

Based on this conclusion, in determining the fair value of certain asset-backed securities collateralized by sub-prime mortgages, the Company considered both third-party pricing information, and an internally developed price, based on a discounted cash flow model. The discount rate used in the model was based on observed spreads for other similarly structured credit markets which were active and dominated by observable orderly transactions. The Company also applied additional risk premiums to the discount rate to reflect the relative

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

illiquidity and asset specific cash flow uncertainty associated with asset-backed securities collateralized by sub-prime mortgages. This combined security specific additional spread reflects the Company s judgment of what an investor would demand for taking on such risks in an orderly transaction under current market conditions, and is significantly higher than would be indicative of historical spread differences between structured credit asset classes when all asset classes had active markets dominated with orderly transactions. The Company believes these estimated spreads are reflective of current market conditions in the sub-prime mortgage market and these spread estimates are further supported by their relationship to recent observations of limited transactions in sub-prime securities. Using this discount rate, valuations were developed based on the expected future cash flows of the assets. In determining how much weight to place on the third-party pricing information versus our discounted cash flow valuation, the Company considered the level of inactivity and impact of disorderly transactions. The Company weighted third-party pricing information as little as 30% where it had little observable market information, and as much as 90% where more observable information was available. As a result, as of September 30, 2009, the Company reported fair values for these sub-prime securities which were net $795 million higher than the estimated fair values received from independent third party pricing services or brokers. The adjusted fair value of these securities was $5,797 million, which was reflected within Level 3 in the fair value hierarchy as of September 30, 2009, based on the unobservable inputs used in the discounted cash flow model.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Assets and Liabilities by Hierarchy Level The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of the dates indicated.

	As of September 30, 2009				
	Level 1	Level 2	Level 3	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 7,411	$	$	$ 7,411
Obligations of U.S. states and their political subdivisions		866			866
Foreign government bonds		39,040	183		39,223
Corporate securities	5	87,901	1,354		89,260
Asset-backed securities		4,091	6,443		10,534
Commercial mortgage-backed securities		10,726	300		11,026
Residential mortgage-backed securities		12,385	185		12,570
Sub-total	5	162,420	8,465		170,890
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		130			130
Obligations of U.S. states and their political subdivisions		21			21
Foreign government bonds		559	12		571
Corporate securities		8,903	211		9,114
Asset-backed securities		516	271		787
Commercial mortgage-backed securities		2,086	5		2,091
Residential mortgage-backed securities		1,322	26		1,348
Equity securities	724	193	2		919
All other activity	274	593			867
Sub-total	998	14,323	527		15,848
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		171			171
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		23			23
Corporate securities	10	268	69		347
Asset-backed securities		1,451	39		1,490
Commercial mortgage-backed securities		102	26		128
Residential mortgage-backed securities		128	8		136
Equity securities	114	93	25		232
All other activity	11	6,069	770	(5,554)	1,296
Sub-total	135	8,305	937	(5,554)	3,823
Equity securities, available for sale	3,973	2,356	371		6,700
Commercial mortgage and other loans		199	403		602
Other long-term investments	50	23	476		549
Short-term investments	3,321	3,909			7,230

Cash and cash equivalents	1,198	7,428			8,626
Other assets	2,044	426	26		2,496
Sub-total excluding separate account assets	11,724	199,389	11,205	(5,554)	216,764
Separate account assets(1)	83,751	71,064	13,313		168,128
Total assets	$ 95,475	$ 270,453	$ 24,518	$ (5,554)	$ 384,892
Future policy benefits			752		752
Long-term debt			979		979
Other liabilities	23	5,401	40	(4,864)	600
Total liabilities	$ 23	$ 5,401	$ 1,771	$ (4,864)	$ 2,331

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.

	As of December 31, 2008				
	Level 1	Level 2	Level 3 (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$	$ 155,787	$ 2,269	$	$ 158,056
Trading account assets supporting insurance liabilities	748	12,982	145		13,875
Other trading account assets	143	9,882	1,396	(7,085)	4,336
Equity securities, available for sale	3,801	1,939	325		6,065
Commercial mortgage and other loans		517	56		573
Other long-term investments	246	265	1,015		1,526
Short-term investments	2,601	1,874			4,475
Cash and cash equivalents	2,512	8,834			11,346
Other assets	1,255	2,500	26		3,781
Sub-total excluding separate account assets	11,306	194,580	5,232	(7,085)	204,033
Separate account assets(1)	56,362	70,953	19,780		147,095
Total assets	$ 67,668	$ 265,533	$ 25,012	$ (7,085)	$ 351,128
Future policy benefits			3,229		3,229
Long-term debt			324		324
Other liabilities	57	6,692	139	(5,948)	940
Total liabilities	$ 57	$ 6,692	$ 3,692	$ (5,948)	$ 4,493

(1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Consolidated Statement of Financial Position.

(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.

The methods and assumptions the Company uses to estimate fair value of assets and liabilities measured at fair value on a recurring basis are summarized as follows:

Fixed Maturity Securities The fair values of the Company s public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices from pricing services are sourced from multiple vendors, and a vendor hierarchy is maintained by asset type

based on historical pricing experience and vendor expertise. The Company generally receives prices from multiple pricing services for each security, but ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. In order to validate reasonability, prices are reviewed by internal asset managers through comparison with directly observed recent market trades and internal estimates of current fair value, developed using market observable inputs and economic indicators. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. If the pricing service updates the price to be more consistent in comparison to the presented market observations, the security remains within Level 2.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may over-ride the information from the pricing service or broker with an internally developed valuation. As of September 30, 2009 and December 31, 2008 over-rides on a net basis were not material. Internally developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect our own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service over-rides, internally developed valuations and non-binding broker quotes are generally included in Level 3 in our fair value hierarchy.

The fair value of private fixed maturities, which are primarily comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the asset. Accordingly, these securities have been reflected within Level 3. Significant unobservable inputs used include: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cashflows, default rate assumptions, and liquidity assumptions. These inputs are usually considered unobservable, as not all market participants will have access to this data.

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

Trading Account Assets (including trading account assets supporting insurance liabilities) consist primarily of public corporate bonds, treasuries, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under Fixed Maturity Securities and below under Equity Securities and Derivative Instruments. Other trading account assets also includes collateral assets we hold under TALF, as described below under Long-Term Debt.

Equity Securities consist principally of investments in common and preferred stock of publicly traded companies, privately traded securities, as well as common stock mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using valuation and discounted cash flow models that require a substantial level of judgment. In determining the fair value of certain privately traded equity securities the discounted cash flow model may also use unobservable inputs, which reflect the Company s assumptions about the inputs market participants would use in pricing the asset. Most privately traded equity securities are classified within Level 3. The fair values of common stock mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

within Level 2 in the fair value hierarchy. The fair values of preferred equity securities are based on prices obtained from independent pricing services and, in order to validate reasonability, are compared with directly observed recent market trades. Accordingly, these securities are generally classified within Level 2 in the fair value hierarchy.

Commercial Mortgage and Other Loans The fair value of commercial mortgage loans held for investment and accounted for using the Fair Value Option are determined based on the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for similar quality loans. While the interest rate and market spread assumptions for similar quality loans are generally observable based upon market transactions, downward credit migration of these loans has resulted in the use of higher credit spreads, which are internally developed and not observable in the market place. As a result, these loans are included in Level 3 in the fair value hierarchy. The fair value of loans held for sale and accounted for using the Fair Value Option are determined utilizing pricing indicators from the whole loan markets, which are considered the principal exit markets for these loans. The Company has evaluated the valuation inputs used for these assets, including the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

Other Long-Term Investments include limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are considered investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities and equity securities), as well as wholly-owned real estate held within other investment funds.

The fair value of the feeder fund investments in master funds are generally determined by reference to the investments in the underlying master funds. The fair value of investments in funds holding publicly traded equity securities are generally based on quoted prices in active markets for identical investments and are therefore reflected as Level 1. The fair value of investments in funds holding public fixed maturities are generally based on validated quotes from pricing services as described above, and are reflected in Level 2.

The fair value of wholly-owned real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in the fair value hierarchy.

Derivative Instruments Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, non-performance risk and liquidity as well as 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. Fair values can also be affected by changes in estimates and assumptions including those related to counterparty behavior used in valuation models.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The Company s exchange-traded futures and options include treasury futures, eurodollar futures, commodity futures, eurodollar options and commodity options. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in our fair value hierarchy.

The majority of the Company s derivative positions are traded in the over-the-counter (OTC) derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models generally accepted in the financial services industry that use actively quoted or observable market input values from external market data providers, non-binding broker-dealer quotations, third-party pricing vendors and/or recent trading activity. The fair values of most OTC derivatives, including interest rate and cross currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and to-be-announced (or TBA) forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models key assumptions 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 and volatility.

OTC derivative contracts are executed under master netting agreements with counterparties with a Credit Support Annex, or CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties, should either party suffer a credit rating deterioration. The vast majority of the Company s derivative agreements are with highly rated major international financial institutions. Consistent with the practice of major international financial institutions, the Company uses the credit spread embedded in the London Interbank Offered Rate (LIBOR) interest rate curve to reflect non-performance risk when determining the fair value of derivative assets and liabilities. The Company believes this credit spread is an appropriate estimate of the non-performance risk for derivative related assets and liabilities between highly rated institutions after consideration of the impacts of netting and the collateral posting process. Most OTC derivative contracts have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. The Company s policy is to use mid-market pricing in determining its best estimate of fair value.

Level 3 includes OTC derivatives where the bid-ask spreads are generally wider than derivatives classified within Level 2 thus requiring more judgment in estimating the mid-market price of such derivatives.

Derivatives that are valued based upon models with unobservable market input values or input values from less actively traded or less-developed markets are classified within Level 3 in the fair value hierarchy. Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured products. The fair values of first-to-default credit basket swaps are derived from relevant observable inputs such as: individual credit default spreads, interest rates, recovery rates and unobservable model-specific input values such as correlation between different credits within the same basket. Look-back equity options and other structured options and derivatives are valued using simulation models such as the Monte Carlo technique. The input values for look-back equity options are derived from observable market indices such as interest rates, dividend yields, equity indices as well as unobservable model-specific input values such as certain volatility parameters. Level 3 methodologies are validated through periodic comparison of the Company s fair values to broker-dealer values.

Cash Equivalents and Short-Term Investments include money market instruments, commercial paper and other highly liquid debt instruments. Money market instruments are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

remaining instruments in the Cash Equivalents and Short-term Investments category are typically not traded in active markets; however, their fair values are based on market observable inputs and, accordingly, these investments have been classified within Level 2 in the fair value hierarchy.

Other Assets and Other Liabilities Other assets carried at fair value include U.S. Treasury bills held within our global commodities group whose fair values are determined consistent with similar securities described above under Fixed Maturity Securities. Included in other liabilities are various derivatives contracts executed within our global commodities group, including exchange-traded futures, foreign currency and commodity contracts. The fair values of these derivative instruments are determined consistent with similar derivative instruments described above under Derivative Instruments.

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

The Company is also required to incorporate its own risk of non-performance in the valuation of the embedded derivatives associated with the its optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the claims-paying ratings of the Company s insurance subsidiaries in the valuation of the liability appropriately takes into consideration the Company s own risk of non-performance. Historically, the expected cash flows were discounted using forward LIBOR interest rates, which were commonly viewed as being consistent with AA quality claims-paying ratings. However, in light of first quarter of 2009 developments, including rating agency downgrades to the claims-paying ratings of the Company s insurance subsidiaries, the Company determined that forward LIBOR interest rates were no longer indicative of a market participant s view of the Company s claims-paying ability. As a result, beginning in the first quarter of 2009, to reflect the market s perception of its non-performance risk, the Company incorporated an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with its optional living benefit features, thereby increasing the discount rate and reducing the fair value of the embedded derivative liabilities. The additional spread over LIBOR is determined taking into consideration publicly available information relating to the claims-paying ability of the Company s insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. The Company adjusts these credit spreads to remove any liquidity risk premium. The additional spread over LIBOR incorporated into the discount rate as of September 30, 2009 generally ranged from 100 to 200 basis points for the portion of the interest rate curve most relevant to these liabilities.

Other significant inputs to the valuation models for the embedded derivatives associated with the optional living benefit features of the Company s variable annuity products include capital market assumptions, such as interest rate and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience and give consideration to any observable market data, including market transactions such as acquisitions and reinsurance transactions. Since many of the assumptions utilized in the valuation of the embedded derivatives associated with the

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Company s optional living benefit features are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy.

Long-Term Debt includes funding received from the Federal Reserve Bank of New York on a non-recourse basis to finance the purchase of eligible asset-backed securities, under TALF. The Company values these liabilities using various inputs including the value of the collateral (eligible asset-backed securities), a comparison of the liabilities spread over LIBOR to the spreads in current TALF offerings and various other market observable and non-observable inputs which incorporate significant management judgment. As a result, the pricing of the non-recourse liabilities have been classified within Level 3 in the Company s fair value hierarchy. The pricing of the collateral assets (recorded in other trading account assets) is generally based on third party pricing information as discussed above, and included in Level 2 in the Company s fair value hierarchy. See Note 9 for additional information regarding the Company s participation in TALF.

Changes in Level 3 assets and liabilities The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2009, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2009 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2009.

	Three Months Ended September 30, 2009				
	Fixed Maturities, Available For Sale Foreign Government Bonds	Fixed Maturities, Available For Sale Corporate Securities	Fixed Maturities, Available For Sale Asset-Backed Securities	Fixed Maturities, Available For Sale Commercial Mortgage-Backed Securities	Fixed Maturities, Available For Sale Residential Mortgage-Backed Securities
			(in millions)		
Fair value, beginning of period	$ 43	$ 1,279	$ 6,014	$ 59	$ 197
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net		(8)	(242)	(16)	
Asset management fees and other income					
Included in other comprehensive income (loss)	2	85	1,041	(16)	3
Net investment income		3	16	5	1
Purchases, sales, issuances, and settlements	138	(77)	(544)	(4)	(16)
Foreign currency translation		1	7	8	
Other(1)			4		
Transfers into (out of) Level 3(2)		71	147	264	
Fair value, end of period	$ 183	$ 1,354	$ 6,443	$ 300	$ 185
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					

Realized investment gains (losses), net	$		$	(9)	$	(242)	$	(17)	$	
Asset management fees and other income	$		$		$		$		$	
Included in other comprehensive income (loss)	$	1	$	74	$	1,026	$	(16)	$	3

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2009					
	Trading Account Assets Supporting Insurance Liabilities- Foreign Government Bonds	Trading Account Assets Supporting Insurance Liabilities- Corporate Securities	Trading Account Assets Supporting Insurance Liabilities- Asset-Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Residential Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities- Equity Securities
	(in millions)					
Fair value, beginning of period	$	$ 197	$ 269	$ 5	$ 24	$ 2
Total gains or (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net						
Asset management fees and other income		10	32		3	
Included in other comprehensive income (loss)						
Net investment income		(1)				
Purchases, sales, issuances, and settlements	12	(12)	(23)		(1)	
Foreign currency translation						
Transfers into (out of) Level 3(2)		17	(7)			
Fair value, end of period	$ 12	$ 211	$ 271	$ 5	$ 26	$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):						
Included in earnings:						
Realized investment gains (losses), net	$	$	$	$	$	$
Asset management fees and other income	$	$ 10	$ 20	$	$ 3	$
Included in other comprehensive income (loss)	$	$	$	$	$	$

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2009				
	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets - Asset-Backed Securities	Other Trading Account Assets - Commercial Mortgage-Backed Securities (in millions)	Other Trading Account Assets - Residential Mortgage-Backed Securities	Other Trading Account Assets -Equity Securities
Fair value, beginning of period	$ 59	$ 35	$ 9	$ 6	$ 21
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net					
Asset management fees and other income	3	(1)	(2)	3	1
Included in other comprehensive income (loss)					
Net investment income					
Purchases, sales, issuances, and settlements	2	1		(2)	3
Foreign currency translation		1	1		
Other(1)	4				
Transfers into (out of) Level 3(2)	1	3	18	1	
Fair value, end of period	$ 69	$ 39	$ 26	$ 8	$ 25
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$	$	$
Asset management fees and other income	$ 2	$ (2)	$ (4)	$ 1	$ 2
Included in other comprehensive income (loss)	$	$	$	$	$

	Three Months Ended September 30, 2009				
	Other Trading Account Assets-All Other Activity	Equity Securities, Available for Sale	Commercial Mortgage and Other Loans (in millions)	Other Long-term Investments	Other Assets
Fair value, beginning of period	$ 906	$ 351	$	$ 495	$ 26
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(152)	(17)	(11)	3	
Asset management fees and other income	15			(62)	
Included in other comprehensive income		35			
Net investment income					
Purchases, sales, issuances, and settlements	(1)	(6)		(22)	
Foreign currency translation		7			
Other(1)	2	1		62	
Transfers into (out of) Level 3(2)			414		

Fair value, end of period	$ 770	$ 371	$ 403	$ 476	$ 26
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ (137)	$ (17)	$ (11)	$ 3	$
Asset management fees and other income	$ (1)	$	$	$ (67)	$
Included in other comprehensive income (loss)	$	$ 35	$	$	$

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2009			
	Separate Account Assets(4)	Future Policy Benefits	Long-Term Debt	Other Liabilities
		(in millions)		
Fair value, beginning of period	$ 14,204	$ (796)	$ (1,167)	$ (79)
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net		80		38
Asset management fees and other income				
Interest credited to policyholders account balances	(1,142)			
Included in other comprehensive income				
Net investment income				
Purchases, sales, issuances, and settlements	(82)	(36)	188	1
Foreign currency translation				
Other(1)				
Transfers into (out of) Level 3(2)	333			
Fair value, end of period	$ 13,313	$ (752)	$ (979)	$ (40)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held by the Company at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$	$ 50	$	$ 38
Asset management fees and other income	$	$	$	$
Interest credited to policyholders account balances	$ (1,470)	$	$	$

(1) Other represents the impact of consolidation or deconsolidation of funds and reclasses of certain assets between reporting categories.
(2) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.
(3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

Transfers Transfers into Level 3 for Fixed Maturities, Available for Sale Commercial Mortgage-Backed securities for the three months ended September 30, 2009 is primarily the result of over-riding the third party pricing information downward with internally developed valuations for certain securities held in the Japanese insurance operations portfolio. Transfers into Level 3 for Commercial Mortgage and Other Loans for the three months ended September 30, 2009 is primarily due to downward credit migration of these loans. The downgrade in loans has resulted in the utilization of higher credit spreads, that are internally developed and not observable in the market place. This increase in credit spreads is now considered a significant input in the fair value calculation for these loans.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2009				
	Fixed Maturities, Available For Sale Foreign Government Bonds	Fixed Maturities, Available For Sale Corporate Securities	Fixed Maturities, Available For Sale Asset-Backed Securities	Fixed Maturities, Available For Sale Commercial Mortgage-Backed Securities	Fixed Maturities, Available For Sale Residential Mortgage-Backed Securities
			(in millions)		
Fair value, beginning of period	$ 30	$ 932	$ 1,013	$ 66	$ 228
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net		(92)	(570)	(18)	
Asset management fees and other income					
Included in other comprehensive income (loss)	5	102	1,892	(21)	3
Net investment income		12	12	5	1
Purchases, sales, issuances, and settlements	138	(14)	(1,155)	(4)	(47)
Foreign currency translation		1	5	8	
Other(1)		(24)	4		
Transfers into (out of) Level 3(2)	10	437	5,242	264	
Fair value, end of period	$ 183	$ 1,354	$ 6,443	$ 300	$ 185
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$	$ (93)	$ (571)	$ (18)	$
Asset management fees and other income	$	$	$	$	$
Included in other comprehensive income (loss)	$ 5	$ 86	$ 1,839	$ (21)	$ 3

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2009					
	Trading Account Assets Supporting Insurance Liabilities-Foreign Government Bonds	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Equity Securities
	(in millions)					
Fair value, beginning of period	$	$ 75	$ 35	$ 6	$ 28	$ 1
Total gains or (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net						
Asset management fees and other income		17	48	(1)	3	
Included in other comprehensive income (loss)						
Net investment income		1				
Purchases, sales, issuances, and settlements	12	(40)	(56)		(3)	1
Foreign currency translation						
Transfers into (out of) Level 3(2)		158	244		(2)	
Fair value, end of period	$ 12	$ 211	$ 271	$ 5	$ 26	$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):						
Included in earnings:						
Realized investment gains (losses), net	$	$	$	$	$	$
Asset management fees and other income	$	$ 13	$ 36	$ (1)	$ 3	$
Included in other comprehensive income (loss)	$	$	$	$	$	$

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2009				
	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets - Asset-Backed Securities	Other Trading Account Assets - Commercial Mortgage-Backed Securities (in millions)	Other Trading Account Assets - Residential Mortgage-Backed Securities	Other Trading Account Assets -Equity Securities
Fair value, beginning of period	$ 38	$ 30	$ 2	$ 3	$ 19
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net					
Asset management fees and other income	3	(42)	(4)	1	
Included in other comprehensive income (loss)					
Net investment income		1			
Purchases, sales, issuances, and settlements	2	820		(1)	3
Foreign currency translation		1	1		
Other(1)	25				3
Transfers into (out of) Level 3(2)	1	(771)	27	5	
Fair value, end of period	$ 69	$ 39	$ 26	$ 8	$ 25
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$	$	$
Asset management fees and other income	$ 2	$ (43)	$ (6)	$	$ 1
Included in other comprehensive income (loss)	$	$	$	$	$

	Nine Months Ended September 30, 2009				
	Other Trading Account Assets-All Other Activity	Equity Securities, Available for Sale	Commercial Mortgage and Other Loans (in millions)	Other Long-term Investments	Other Assets
Fair value, beginning of period	$ 1,304	$ 325	$ 56	$ 1,015	$ 26
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(281)	(20)	(16)	3	
Asset management fees and other income	12			(88)	
Included in other comprehensive income		55			
Net investment income					
Purchases, sales, issuances, and settlements	(272)	1	(51)	140	
Foreign currency translation		5			
Other(1)	7			(594)	
Transfers into (out of) Level 3(2)		5	414		
Fair value, end of period	$ 770	$ 371	$ 403	$ 476	$ 26

Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period (3):										
Included in earnings:										
Realized investment gains (losses), net	$	(270)	$	(21)	$	(11)	$	3	$	
Asset management fees and other income	$	1	$		$		$	(67)	$	
Included in other comprehensive income (loss)	$		$	55	$		$		$	

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2009			
	Separate Account Assets(4)	**Future Policy Benefits**	**Long-Term Debt**	**Other Liabilities**
	$ 19,780	$ (3,229)	$ (324)	$ (139)
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net		2,565		62
Asset management fees and other income				
Interest credited to policyholders account balances	(6,714)			
Included in other comprehensive income				
Net investment income				
Purchases, sales, issuances, and settlements	185	(88)	(979)	37
Foreign currency translation				
Other(1)			324	
Transfers into (out of) Level 3(2)	62			
Fair value, end of period	$ 13,313	$ (752)	$ (979)	$ (40)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held by the Company at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$	$ 2,485	$	$ 62
Asset management fees and other income	$	$	$	$
Interest credited to policyholders account balances	$ (6,819)	$	$	$

(1) Other represents the impact of the consolidation or deconsolidation of funds and reclasses of certain assets between reporting categories.
(2) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.
(3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

Transfers Transfers into Level 3 for Fixed Maturities Available for Sale Asset-Backed securities and Trading Account Assets Supporting Insurance Liabilities Asset-Backed securities include $4,583 million and $188 million, respectively for the nine months ended September 30, 2009, resulting from the Company s conclusion that the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market, as discussed in detail above. In addition to these sub-prime securities, transfers into Level 3 for Fixed Maturities Available for Sale Asset-Backed securities as well as Fixed Maturities Available for Sale Corporate securities included transfers resulting from the use of unobservable inputs within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) or models with observable inputs were utilized. Partially offsetting these transfers into Level 3 were transfers out of Level 3 due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate.

Transfers into Level 3 for Fixed Maturities, Available for Sale Commercial Mortgage-Backed securities for the nine months ended September 30, 2009 is primarily the result of over-riding the third party pricing information downward with internally developed valuations for certain securities held in the Japanese insurance operations portfolio.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

In addition to the sub-prime securities mentioned above, transfers into Level 3 for Trading Account Assets Supporting Insurance Liabilities Asset-Backed securities as well as Trading Account Assets Supporting Insurance Liabilities Corporate securities include transfers in due to the use of unobservable inputs within the valuation methodologies and broker quotes (that could not be validated), when previously information from third party pricing services (that could be validated) was utilized. The transfers out of Level 3 for Other Trading Account Assets Asset-Backed securities were primarily the result of the use of third party pricing for the securities purchased under TALF. In the first quarter of 2009, these assets were valued internally using a model.

Transfers into Level 3 for Commercial Mortgage and Other Loans for the nine months ended September 30, 2009 is primarily due to downward credit migration of these loans. The downgrade in loans has resulted in the utilization of higher credit spreads, that are internally developed and not observable in the market place. This increase in credit spreads is now considered a significant input in the fair value calculation for these loans.

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2008, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2008 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2008.

	Three Months Ended September 30, 2008				
	Fixed Maturities, Available For Sale	Trading Account Assets Supporting Insurance Liabilities	Other Trading Account Assets	Equity Securities, Available for Sale	Commercial Mortgage and Other Loans
			(in millions)		
Fair value, beginning of period	$ 1,859	$ 157	$ 640	$ 138	$ 70
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(39)		74	(1)	(7)
Asset management fees and other income		(20)	(7)		
Included in other comprehensive income (loss)	(88)			1	
Net investment income	3		1		
Purchases, sales, issuances, and settlements	308	(9)	111	1	
Foreign currency translation			(2)	(1)	
Transfers into (out of) Level 3(1)	157	2	(15)	112	
Fair value, end of period	$ 2,200	$ 130	$ 802	$ 250	$ 63
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(2):					
Included in earnings:					
Realized investment gains (losses), net	$ (41)	$	$ 74	$ (1)	$ (7)
Asset management fees and other income	$	$ (20)	$ (8)	$	$

Included in other comprehensive income (loss)	$ (87)	$	$	$ (2)	$

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2008				
	Other Long-term Investments	Separate Account Assets(3)	Future Policy Benefits (in millions)	Long-Term Debt	Other Liabilities
Fair value, beginning of period	$ 928	$ 24,559	$ (327)	$ (211)	$ (88)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net			(435)		(73)
Asset management fees and other income	18			(6)	
Interest credited to policyholders account balances		194			
Included in other comprehensive income					
Net investment income					
Purchases, sales, issuances, and settlements	54	209	(23)	(63)	3
Foreign currency translation	(9)				
Transfers into (out of) Level 3(1)		(2,087)			
Fair value, end of period	$ 991	$ 22,875	$ (785)	$ (280)	$ (158)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held by the Company at the end of the period(2):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$ (444)	$	$ (74)
Asset management fees and other income	$ 17	$	$	$ (5)	$
Interest credited to policyholders account balances	$	$ (85)	$	$	$

(1) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.
(2) 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.
(3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

Transfers The amount of Separate Account Assets transferred out of Level 3 in the third quarter totaled $2,087 million. This was primarily a result of the utilization of vendor pricing information that the Company was able to validate in the third quarter that was unavailable in the second quarter.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2008				
	Fixed Maturities, Available For Sale	Trading Account Assets Supporting Insurance Liabilities	Other Trading Account Assets (in millions)	Equity Securities, Available for Sale	Commercial Mortgage and Other Loans
Fair value, beginning of period	$ 2,890	$ 291	$ 497	$ 190	$
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(268)		106	(3)	(12)
Asset management fees and other income		(19)	(11)		
Included in other comprehensive income (loss)	(217)			(20)	
Net investment income	7	(1)	1		
Purchases, sales, issuances, and settlements	(56)	(25)	226	21	(6)
Foreign currency translation			(2)	(1)	
Transfers into (out of) Level 3(1)	(156)	(116)	(15)	63	81
Fair value, end of period	$ 2,200	$ 130	$ 802	$ 250	$ 63
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(2):					
Included in earnings:					
Realized investment gains (losses), net	$ (282)	$	$ 106	$ (4)	$ (12)
Asset management fees and other income	$	$ (31)	$ (11)	$	$
Included in other comprehensive income (loss)	$ (213)	$	$	$ (20)	$

	Nine Months Ended September 30, 2008				
	Other Long-term Investments	Separate Account Assets(3)	Future Policy Benefits (in millions)	Long-Term Debt	Other Liabilities
Fair value, beginning of period	$ 824	$ 21,815	$ (168)	$ (152)	$ (77)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net			(553)		(84)
Asset management fees and other income	108			(5)	
Interest credited to policyholders account balances		123			
Included in other comprehensive income					
Net investment income	3				
Purchases, sales, issuances, and settlements	65	1,327	(64)	(123)	3
Foreign currency translation	(9)				
Transfers into (out of) Level 3(1)		(390)			
Fair value, end of period	$ 991	$ 22,875	$ (785)	$ (280)	$ (158)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held by the Company at the end of the period(2):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$ (562)	$	$ (84)
Asset management fees and other income	$ 75	$	$	$ (5)	$
Interest credited to policyholders account balances	$	$ (320)	$	$	$

(1) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.
(2) 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.
(3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Transfers Net transfers out of Level 3 for Fixed Maturities Available for Sale during the nine months ended September 30, 2008 were primarily due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate. Partially offsetting these transfers out of Level 3 were transfers into Level 3 primarily from the use of unobservable inputs within valuation methodologies and the use of broker quotes when previously information from third party pricing services was utilized.

The net amount of transfers out of Level 3 for Trading Account Assets Supporting Insurance Liabilities during the nine months ended September 30, 2008 is due primarily to the use of observable inputs in valuation methodologies as well as pricing service information for certain assets that the Company was able to validate. Partially offsetting these transfers out of Level 3 were transfers into Level 3 due to the use of unobservable inputs within the valuation methodologies and broker quotes, when previously information from third party pricing services was utilized. Transfers of Commercial Mortgage and Other Loans into Level 3 resulted from a reduction in the availability of market available prices during the year due to market illiquidity.

The net amount of Separate Account Assets transferred out of Level 3 for the nine months ended September 30, 2008 resulted from the use of vendor pricing information that the Company was able to validate that was previously unavailable. Partially offsetting the transfers out for this activity were transfers into Level 3 as a result of further review of valuation methodologies for certain assets that had been previously classified as Level 2.

Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. Impairments of $15 million and $56 million were recorded for the three and nine months ended September 30, 2009, respectively, on certain cost method investments. The carrying value as of September 30, 2009 of these investments was $262 million. Impairments on similar investments of $11 million and $20 million were recorded for the three and nine months ended September 30, 2008, respectively. The fair value adjustments were based on inputs classified as Level 3 in the valuation hierarchy. The inputs utilized were primarily discounted estimated future cash flows and valuations provided by the general partners taken into consideration with deal and management fee expenses. In addition, impairments of $0 million and $1 million were recorded for the three and nine months ended September 30, 2009, respectively on certain equity method investments. Impairments on similar investments of $2 million and $6 million were recorded for the three and nine months ended September 30, 2008, respectively. The fair value adjustments were based on inputs classified as Level 3 in the valuation hierarchy. The inputs utilized were primarily discounted estimated future cash flows. Impairments of $6 million for the three and nine months ended September 30, 2008 were recorded for certain equity method investments and utilized inputs that were classified Level 2 on the hierarchy. The fair value measurement was based on negotiated sales price.

Impairments of $4 million for the three and nine months ended September 30, 2009 were recorded associated with real estate held for investment. The impairments were based on appraisal values and were classified as Level 3 in the hierarchy.

The Company had written down certain commercial loans held at September 30, 2008 that were carried at the lower of cost or market. Losses of $8 million and $43 million were recorded for the three and nine months ended September 30, 2008, respectively, for such assets. The fair value measurements were classified as Level 3 in the valuation hierarchy. The inputs utilized for these valuations are pricing indicators from the whole loan market, which the Company considers its principal market for these loans.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Fair Value Option The following table presents information regarding changes in fair values recorded in earnings for commercial mortgage loans and long-term debt where the fair value option has been elected.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Assets:				
Commercial Mortgage Loans:				
Changes in instrument-specific credit risk	$ (9)	$ (17)	$ (44)	$ (38)
Other changes in fair value		2	1	1
Liabilities:				
Long-term debt:				
Changes in fair value	$	$	$	$

Changes in fair value are reflected in Realized investment gains (losses), net for commercial mortgage loans and Asset management fees and other income for long-term debt. Changes in fair value due to instrument-specific credit risk are estimated based on changes in credit spreads and quality ratings for the period reported.

None of the commercial mortgage loans where the fair value option has been selected are more than 90 days past due or in non-accrual status. Interest income on commercial mortgage loans is included in net investment income. Interest income recorded on these loans was $10 million and $15 million for the three months ended September 30, 2009 and 2008, respectively and $30 million and $37 million for the nine months ended September 30, 2009 and 2008, respectively. Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan. The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were $602 million and $651 million, respectively, as of September 30, 2009.

The fair values and aggregate contractual principal amounts of long-term debt, for which the fair value option has been elected, were $979 million as of September 30, 2009. Interest expense recorded on this debt is included in general and administrative expenses. The Company recorded $4 million and $8 million of interest expense for the three and nine months ended September 30, 2009, respectively.

Fair Value of Financial Instruments The Company is required by U.S. GAAP to disclose the fair value of certain financial instruments including those that are not carried at fair value. For the following financial instruments the carrying amount equals or approximates fair value: fixed maturities classified as available for sale, trading account assets supporting insurance liabilities, other trading account assets, equity securities, securities purchased under agreements to resell, short-term investments, cash and cash equivalents, accrued investment income, separate account assets, securities sold under agreements to repurchase, and cash collateral for loaned securities, as well as certain items recorded within other assets and other liabilities such as broker-dealer related receivables and payables. See Note 14 for a discussion of derivative instruments.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2009	
	Carrying Amount	Fair Value
	(in millions)	
Assets:		
Fixed maturities, held to maturity	$ 5,141	$ 5,199
Commercial mortgage and other loans	32,125	30,876
Policy loans	10,070	12,096
Wachovia Securities lookback option	580	3,349
Liabilities:		
Policyholder account balances Investment contracts	$ 72,985	$ 73,574
Short-term and long-term debt	24,941	24,491
Debt of consolidated VIEs	413	197
Bank customer liabilities	1,512	1,525
Separate account liabilities Investment contracts	81,119	81,119

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

Fixed Maturities, held to maturity

The fair values of public fixed maturity securities are generally based on prices from third party pricing services, which are reviewed to validate reasonability. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities the fair value is based on non-binding broker quotes, if available, or, to a lesser extent, is determined using internally developed values. For private fixed maturities fair value is determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

The fair value of commercial mortgage and other loans, other than those held by the Company s commercial mortgage operations, is primarily based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or Japanese Government Bond

rate for yen based loans, adjusted for the current market spread for similar quality loans.

The fair value of commercial mortgage and other loans held by the Company s commercial mortgage operations is based upon various factors, including the terms of the loans, the principal exit markets for the loans, prevailing interest rates, and credit risk.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Policy Loans

The fair value of U.S. insurance policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayment patterns, while Japanese insurance policy loans use the risk-free proxy based on the Yen LIBOR. For group corporate- and trust-owned life insurance contracts and group universal life contracts, the fair value of the policy loans is the amount due as of the reporting date.

Wachovia Securities lookback option

As described in Note 13, the Company elected to exercise its rights under the lookback option as it relates to its interest in the Wachovia Securities joint venture. The fair value of the lookback option is determined internally by using an approach that employs both Black-Scholes and binominal option pricing models, which includes inputs such as equity market volatilities, risk-free rates, dividend yields and counterparty credit risk, as well as an illiquidity discount. The carrying value of the lookback option is reflected within Other assets.

Investment Contracts Policyholders Account Balances & Separate Account Liabilities

Only the portion of policyholders account balances and separate account liabilities related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, single premium endowments, payout annuities and other similar contracts without life contingencies, fair values are derived using discounted projected cash flows based on interest rates that are representative of the Company s claims paying ratings, and hence reflects the Company s own nonperformance risk. For guaranteed investment contracts, funding agreements, structured settlements without life contingencies and other similar products, fair values are derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products the fair value is the market value of the assets supporting the liabilities.

Debt

The fair value of short-term and long-term debt, as well as debt of consolidated VIEs, is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. These fair values consider the Company s own nonperformance risk. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For commercial paper issuances and other debt with a maturity of less than 90 days, the carrying value approximates fair value. Debt of consolidated VIEs is reflected within Other

liabilities.

A portion of the senior secured notes issued by Prudential Holdings, LLC (the IHC debt) is insured by a third-party financial guarantee insurance policy. The effect of the third-party credit enhancement is not included in the fair value measurement of the IHC debt and the methodologies used to determine fair value consider the Company s own nonperformance risk.

Bank Customer Liabilities

The carrying amount for certain deposits (interest and non-interest demand, savings and money market accounts) approximates or equals their fair values. Fair values for fixed-rate certificates of deposit are estimated

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

using a discounted cash flow calculation that applies interest rates being offered on certificates at the reporting dates to a schedule of aggregated expected monthly maturities. Bank customer liabilities are reflected within Other liabilities.

13. INVESTMENT IN WACHOVIA SECURITIES

On July 1, 2003, the Company combined its retail securities brokerage and clearing operations with those of Wachovia Corporation (Wachovia) and formed Wachovia Securities, a joint venture currently headquartered in St. Louis, Missouri. The transaction included the contribution of certain assets and liabilities of the Company s securities brokerage operations; however, the Company retained certain assets and liabilities related to the contributed operations, including liabilities for certain litigation and regulatory matters. The Company and Wachovia have each agreed to indemnify the other for certain losses, including losses resulting from litigation and regulatory matters relating to certain events arising from the operations of their respective contributed businesses prior to March 31, 2004. Reflecting the Company s intention to put its interest in the Wachovia Securities joint venture, as discussed below, the results of the joint venture are included in Corporate and Other operations as a divested business.

On October 1, 2007, Wachovia completed the acquisition of A.G. Edwards, Inc. (A.G. Edwards) and on January 1, 2008 contributed the retail securities brokerage business of A.G. Edwards to the joint venture. Wachovia s contribution of this business entitled the Company to elect a lookback option (which the Company elected) permitting the Company to delay for a period of two years ending on January 1, 2010, the decision on whether or not to make payments to avoid or limit dilution of its 38% ownership interest in the joint venture or, alternatively, to put its joint venture interests to Wachovia based on the appraised value of the joint venture, excluding the A.G. Edwards business, as of January 1, 2008, the date of the combination of the A.G. Edwards business with Wachovia Securities. During this lookback period, the Company s share in the earnings of the joint venture and one-time costs associated with the combination of the A.G. Edwards business with Wachovia Securities is based on the Company s diluted ownership level, which has not yet been determined. Based upon the existing agreements and the Company s estimates of the values of the A.G. Edwards business and the joint venture excluding the A.G. Edwards business, the Company adjusted the carrying value of its ownership interest in the joint venture effective as of January 1, 2008 to reflect the addition of the A.G. Edwards business and the dilution of the Company s 38% ownership interest and to record the value of the above described rights under the lookback option. The Company accordingly recognized a corresponding increase to Additional paid-in capital of $1.041 billion, net of tax, which represented the excess of the estimated value of the Company s share of the A.G. Edwards business received (of approximately $1.444 billion) and the estimated value of the lookback option acquired (of approximately $580 million) over the carrying value of the portion of the Company s ownership interest in Wachovia Securities that was diluted (of approximately $422 million), net of taxes (of approximately $561 million). The Company s recorded share of pre-tax losses from the joint venture of $2 million for the nine months ended September 30, 2009 reflects its estimated diluted ownership level based upon the existing agreements and its estimates of the values of the A.G. Edwards business and the joint venture excluding the A.G. Edwards business. Establishment of definitive agreed or appraised values for the A.G. Edwards business and the joint venture excluding the A.G. Edwards business will result in an adjustment to the credit to equity and a true-up to the Company s earnings from the joint venture for any difference between the diluted ownership percentage used to record earnings for the nine months ended September 30, 2009 and the finally determined diluted ownership percentage. The Company does not anticipate any such adjustment to have a material effect on its reported results of operations.

On October 3, 2008, Wachovia and Wells Fargo & Company (Wells Fargo) announced that they had entered into an Agreement and Plan of Merger, pursuant to which Wachovia would be merged into Wells Fargo,

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

which would succeed to Wachovia s rights and obligations under the joint venture arrangements. As reported by Wells Fargo, this merger was completed on December 31, 2008. Wachovia Securities is now using the Wells Fargo Advisors name.

On December 4, 2008, the Company announced its intention to exercise its right under the lookback option to put its joint venture interests to Wells Fargo. On June 17, 2009, the Company provided notice to Wells Fargo of its exercise of its lookback option put rights. Under the terms of the joint venture agreements, the Company expects that the closing of the put transaction will occur on or about January 1, 2010. Under the terms of the joint venture agreements, Wells Fargo may elect to pay the proceeds from our exercise of the lookback put either in cash, Wells Fargo common stock or a combination of the foregoing. The Company has received notice from Wells Fargo that it intends to pay the proceeds in an unspecified combination of cash and Wells Fargo common stock. Under the terms of the agreements relating to the joint venture, the number of shares of Wells Fargo common stock to be received by the Company will be determined by dividing the portion of the proceeds to be paid in Wells Fargo common stock by the average of the closing prices of the Wells Fargo common stock during the 10 trading day period immediately prior to the closing. The joint venture agreements provide that the Company and Wells Fargo will enter into a registration rights agreement for the registration under the Securities Act of 1933 of the Wells Fargo shares to be received at the closing.

14. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies used in a non- dealer or broker capacity

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

Exchange-traded futures and options are used by the Company to reduce risks from changes in interest rates, to alter mismatches between the duration of assets in a portfolio and the duration of liabilities supported by those assets, and to hedge against changes in the value of securities it owns or anticipates acquiring or selling. In exchange-traded futures transactions, the Company agrees to purchase or sell a specified number of contracts, the values of which are determined by the values of underlying referenced investments, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures and options with regulated futures commission s merchants who are members of a trading exchange.

Currency derivatives, including exchange-traded currency futures and options, currency forwards and currency swaps, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell. The Company also uses currency forwards to hedge the currency risk associated with net investments in

foreign operations and anticipated earnings of its foreign operations.

Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

forwards to mitigate the risk that unfavorable changes in currency exchange rates will reduce U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investments operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

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

Credit derivatives are used by the Company to enhance the return on the Company s investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments. With credit derivatives the Company sells credit protection on an identified name, or a basket of names in a first to default structure, and in return receives a quarterly premium. With single name credit default derivatives, this premium or credit spread generally corresponds to the difference between the yield on the referenced name s public fixed maturity cash instruments and swap rates, at the time the agreement is executed. With first to default baskets, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket. If there is an event of default by the referenced name or one of the referenced names in a basket, as defined by the agreement, then the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced defaulted security or similar security. See Note 15 for a discussion of guarantees related to these credit derivatives. In addition to selling credit protection, in limited instances the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio.

The Company uses to be announced (TBA) forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company to achieve better diversification and to enhance the return on its investment portfolio. TBAs provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date.

In its mortgage operations, the Company enters into commitments to fund commercial mortgage loans at specified interest rates and other applicable terms within specified periods of time. These commitments are legally binding agreements to extend credit to a counterparty. Loan commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. The determination of the fair value of loan commitments accounted for as derivatives considers various factors including, among others, terms of the related loan, the intended exit strategy for the loans based upon either securitization valuation models or investor purchase commitments, prevailing interest rates, and origination income or expense. Loan commitments that relate to the origination of mortgage loans that will be held for investment are not accounted for as derivatives and accordingly are not recognized in the Company s financial statements. See Note 15 for a further discussion of these loan commitments.

The Company sells variable annuity products, which contain embedded derivatives. These embedded derivatives are marked to market through Realized investment gains (losses), net based on the change in value of the underlying contractual guarantees, which are determined using valuation models. The Company maintains a portfolio of derivative instruments that is intended to economically hedge the risks related to the

above

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

products features. The derivatives may include, but are not limited to equity options, total return swaps, interest rate swap options, caps, floors, and other instruments. In addition, some variable annuity products feature an automatic rebalancing element to minimize risks inherent in the Company s guarantees which reduces the need for hedges.

The Company sells synthetic guaranteed investment contracts which are investment-only, fee-based stable value products, to qualified pension plans. The assets are owned by the trustees of such plans, who invest the assets under the terms of investment guidelines agreed to with the Company. The contracts contain a guarantee of a minimum rate of return on participant balances supported by the underlying assets, and a guarantee of liquidity to meet certain participant-initiated plan cash flow requirements. These contracts are accounted for as derivatives and recorded at fair value.

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

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

	September 30, 2009			December 31, 2008		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
	(in millions)					
Qualifying Hedge Relationships						
Interest Rate	$ 7,977	$ 112	$ (570)	$ 6,315	$ 124	$ (901)
Currency	1,066	2	(21)	1,974	56	(83)
Currency/Interest Rate	2,460	35	(336)	2,372	68	(140)
Total Qualifying Hedge Relationships .	$ 11,503	$ 149	$ (927)	$ 10,661	$ 248	$ (1,124)
Non-qualifying Hedge Relationships						
Interest Rate	$ 95,111	$ 3,414	$ (2,168)	$ 86,433	$ 6,013	$ (3,610)
Currency	10,512	176	(387)	6,239	243	(380)
Credit	4,009	293	(152)	3,100	397	(308)
Currency/Interest Rate	5,208	154	(231)	6,173	686	(518)
Equity	7,596	1,177	(193)	7,353	1,915	(7)
Total Non-qualifying Hedge Relationships	$ 122,436	$ 5,214	$ (3,131)	$ 109,298	$ 9,254	$ (4,823)
Total Derivatives(1)	$ 133,939	$ 5,363	$ (4,058)	$ 119,959	$ 9,502	$ (5,947)

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a liability of $1,162 million as of September 30, 2009 and a liability of $3,942 million as of December 31, 2008, included in Future policy benefits and Fixed maturities, available for sale.

Cash Flow, Fair Value and Net Investment Hedges

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding the offset of the hedged item in an effective hedge relationship:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(in millions)			
Qualifying Hedges				
Fair value hedges				
Interest Rate				
Realized investment gains (losses), net	$ (61)	$ (56)	$ 243	$ (35)
Net investment income	(39)	(33)	(119)	(79)
Interest expense (increase)/decrease	1		2	
Interest credited to policyholder account balances (increase)/decrease	20	6	49	13
Currency				
Realized investment gains (losses), net		2		(1)
Net investment income		(1)		(13)
Other income		3	2	41
Total fair value hedge	$ (79)	$ (79)	$ 177	$ (74)
Cash flow hedges				
Interest Rate				
Interest expense (increase)/decrease	$ (4)	$ (3)	$ (12)	$ (7)
Interest credited to policyholder account balances (increase)/decrease	(2)	1	(5)	2
Accumulated other comprehensive income(1)	(5)	(18)	42	(7)
Currency/Interest Rate				
Net investment income	(2)	(5)	(6)	(14)
Interest expense (increase)/decrease				11
Other income	4	(2)	3	(35)
Accumulated other comprehensive income(1)	(51)	126	(143)	34
Total cash flow hedges	$ (60)	$ 99	$ (121)	$ (16)
Net investment hedges				
Currency				
Realized investment gains (losses), net(2)	$	$	$ 36	$ (1)
Accumulated other comprehensive income(1)	(33)	233	(73)	303
Currency/Interest Rate				
Accumulated other comprehensive income(1)	(61)		(78)	8
Total net investment hedges	$ (94)	$ 233	$ (115)	$ 310
Non-qualifying hedges				
Realized investment gains (losses), net				

Interest rate	$ 746	$ 408	$ (1,306)	$ 387
Currency	(224)	228	(190)	146
Currency/Interest Rate	(61)	163	(192)	118
Credit	43	(106)	66	7
Equity	(616)	242	(1,102)	346
Embedded Derivatives (Interest/Equity/Credit)	251	(591)	2,749	(915)
Total non-qualifying hedges	$ 139	$ 344	$ 25	$ 89
Total Derivative Impact	$ (94)	$ 597	$ (34)	$ 309

(1) Amounts deferred in Equity.
(2) Relates to the sale of equity method investments.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

For the three and nine months ended September 30, 2009, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company s results of operations and there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

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

	(in millions)
Balance, December 31, 2008	$ (227)
Net deferred losses on cash flow hedges from January 1 to September 30, 2009	(131)
Amount reclassified into current period earnings	30
Balance, September 30, 2009	$ (328)

As of September 30, 2009, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on 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 Consolidated Statements of Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss) was an asset of $117 million and an asset of $268 million as of September 30, 2009 and December 31, 2008, respectively.

Credit Derivatives Written

The following tables set forth the Company s exposure from credit derivatives where the Company has written credit protection, excluding a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in externally-managed investments in the European market, by NAIC rating of the underlying credits as of September 30, 2009 and December 31, 2008.

Rating Agency Equivalent	September 30, 2009

NAIC Designation		Single Name		First to Default Basket(1)		Total	
		Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
				(in millions)			
1	Aaa, Aa, A	$ 323	$ 2	$ 150	$ (2)	$ 473	$
2	Baa	30	1	352	(9)	382	(8)
	Subtotal Investment Grade	353	3	502	(11)	855	(8)
3	Ba			192	(6)	192	(6)
4	B						
5	C and lower			50	(4)	50	(4)
6	In or near default			70	(19)	70	(19)
	Subtotal Below Investment Grade			312	(29)	312	(29)
Total		$ 353	$ 3	$ 814	$ (40)	$ 1,167	$ (37)

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

NAIC Designation	Rating Agency Equivalent	December 31, 2008 Single Name Notional	Single Name Fair Value	First to Default Basket(1) Notional	First to Default Basket(1) Fair Value	Total Notional	Total Fair Value
		(in millions)					
1	Aaa, Aa, A	$ 340	$ (10)	$ 213	$ (19)	$ 553	$ (29)
2	Baa	5		542	(85)	547	(85)
	Subtotal Investment Grade	345	(10)	755	(104)	1,100	(114)
3	Ba			15	(2)	15	(2)
4	B						
5	C and lower	5		102	(32)	107	(32)
6	In or near default						
	Subtotal Below Investment Grade	5		117	(34)	122	(34)
Total		$ 350	$ (10)	$ 872	$ (138)	$ 1,222	$ (148)

(1) First-to-default credit swap baskets, which may include credits of varying qualities, are grouped above based on the lowest credit in the basket. However, such basket swaps may entail greater credit risk than the rating level of the lowest credit.

The following table sets forth the composition of the Company s credit derivatives where the Company has written credit protection excluding the credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in externally-managed investments in the European market, by industry category as of the dates indicated.

Industry	September 30, 2009 Notional	September 30, 2009 Fair Value	December 31, 2008 Notional	December 31, 2008 Fair Value
	(in millions)			
Corporate Securities:				
Manufacturing	$ 45	$ 1	$ 45	$ (1)
Utilities	5		5	
Finance				
Services	28		25	
Energy	20		20	(1)
Transportation	30		30	(1)
Retail and Wholesale	30		30	(1)
Other	195	2	195	(6)
First to Default Baskets(1)	814	(40)	872	(138)
Total Credit Derivatives	$ 1,167	$ (37)	$ 1,222	$ (148)

(1) Credit default baskets may include various industry categories.

The Company entered into a credit derivative that will require the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. The notional of this credit derivative is $500 million and the fair value as of September 30, 2009 and December 31, 2008, was a liability of $39 million and $16 million, net of $0 million and $125 million of collateral that has been pledged, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The Company holds certain externally-managed investments in the European market which contain embedded derivatives whose fair value are primarily driven by changes in credit spreads. These investments are medium term notes that are collateralized by investment portfolios primarily consisting of investment grade European fixed income securities, including corporate bonds and asset-backed securities, and derivatives, as well as varying degrees of leverage. The notes have a stated coupon and provide a return based on the performance of the underlying portfolios and the level of leverage. The Company invests in these notes to earn a coupon through maturity, consistent with its investment purpose for other debt securities. The notes are accounted for under U.S. GAAP as available for sale fixed maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Equity under the heading Accumulated Other Comprehensive Income (Loss) and changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. The Company s maximum exposure to loss from these investments was $890 million and $1,095 million at September 30, 2009 and December 31, 2008, respectively.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio. As of September 30, 2009 and December 31, 2008, the Company had $2.343 billion and $1.378 billion of outstanding notional amounts, reported at fair value as an asset of $217 million and an asset of $253 million, respectively.

Types of Derivative Instruments and Derivative Strategies used in a broker/dealer capacity

Futures, forwards and options contracts, and swap agreements, are also used in a derivative dealer or broker capacity in the Company s commodities operations to facilitate transactions of the Company s clients, hedge proprietary trading activities and as a means of risk management. These derivatives allow the Company to structure transactions to manage its exposure to commodities and securities prices, foreign exchange rates and interest rates. Risk exposures are managed through diversification, by controlling position sizes and by entering into offsetting positions. For example, the Company may manage the risk related to its precious metals inventory by entering into an offsetting position in exchange traded futures contracts.

The fair value of the Company s derivative contracts used in a derivative dealer or broker capacity is reported on a net-by-counterparty basis in the Company s Consolidated Statements of Financial Position when management believes a legal right of setoff exists under an enforceable netting agreement.

Realized and unrealized gains and losses from marking-to-market the derivatives used in proprietary positions are recognized on a trade date basis and reported in Asset management fees and other income.

The following table sets forth the income statement impact of derivatives used in a broker/dealer capacity.

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Asset management fees and other income		
Interest Rate	$ (18)	$ (21)
Commodity	8	37
Currency	24	44
Equity		4
Total asset management fees and other income	$ 14	$ 64

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions. The Company manages credit risk by entering into derivative transactions with major international financial institutions and other creditworthy counterparties, and by obtaining collateral where appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

The credit exposure of the Company s over-the-counter (OTC) derivative transactions is represented by the contracts with a positive fair value (market value) at the reporting date. To reduce credit exposures, the Company seeks to (i) enter into OTC derivative transactions pursuant to master agreements that provide for a netting of payments and receipts with a single counterparty (ii) enter into agreements that allow the use of credit support annexes (CSAs), which are bilateral rating-sensitive agreements that require collateral postings at established threshold levels. Likewise, the Company effects exchange-traded futures and options transactions through regulated exchanges and these transactions are settled on a daily basis, thereby reducing credit risk exposure in the event of non-performance by counterparties to such financial instruments.

The vast majority of the Company s OTC derivative agreements are with highly rated major international financial institutions. Consistent with the practice of major international financial institutions, the Company utilizes the credit spread embedded in the LIBOR curve to reflect non-performance risk when determining the fair value of OTC derivative assets and liabilities after consideration of the impacts of the collateral posting process discussed above. This credit spread captures the non-performance risk of the Company s OTC derivative related assets and liabilities.

Certain of the Company s derivative agreements with some of its counterparties contain credit-risk related triggers. If the Company s credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative or demand immediate full collateralization on derivative instruments in net liability positions. If a downgrade occurred and the derivative positions were terminated, the Company anticipates it would be able to replace the derivative positions with other counterparties in the normal course of business. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position were $389 million as of September 30, 2009. In the normal course of business the Company has posted cash collateral related to these instruments of $342 million as of September 30, 2009. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2009, the Company estimates that it would be required to post a maximum of $47 million of additional collateral to its counterparties.

15. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments and Guarantees

In connection with the Company s commercial mortgage operations, it originates commercial mortgage loans. At September 30, 2009, the Company had outstanding commercial mortgage loan commitments with borrowers of $1,790 million. In certain of these transactions, the Company prearranges that it will sell the loan to an investor, including to governmental sponsored entities as discussed below, after the Company funds the loan. At September 30, 2009, $922 million of the Company s commitments to originate commercial mortgage loans are subject to such arrangements.

The Company also has other commitments, some of which are contingent upon events or circumstances not under the Company s control, including those at the discretion of the Company s counterparties. These other

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

commitments amounted to $9,261 million at September 30, 2009. Reflected in these other commitments are $9,212 million of commitments to purchase or fund investments, including $5,447 million that the Company anticipates will ultimately be funded from its separate accounts. Of these separate account commitments, $2,198 million have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due.

In the course of the Company s business, it provides certain guarantees and indemnities to third parties pursuant to which it may be contingently required to make payments now or in the future.

A number of guarantees provided by the Company relate to real estate investments held in its separate accounts, in which entities that the separate account has invested in have borrowed funds, and the Company has guaranteed their obligations. The Company provides these guarantees to assist these entities in obtaining financing. The Company s maximum potential exposure under these guarantees was $1,837 million at September 30, 2009, of which all but $276 million is limited to the assets of the separate account and of which exposure primarily relates to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next sixteen years. At September 30, 2009, no amounts were accrued as a result of the Company s assessment that it is unlikely payments will be required. Any payments that may become required under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide rights to obtain the underlying collateral.

The Company has also provided a guarantee to a syndication of lenders in connection with a retail development project in Singapore that is 50% co-owned by the Company and an unconsolidated real estate fund managed by the Company. The principal provisions in the guarantee require that the loan-to-value ratio of the retail development project be maintained at 60% or lower, based on an external appraisal. A loan-to-value ratio in excess of 60% would require the Company and its co-owner to jointly and severally paydown the loan balance to the 60% level. The loan-to-value ratio, based on a December 2008 appraisal, is 59.6%. Other obligations under the guarantee include guaranteeing the interest-servicing on the loan on a proportionate basis and undertaking to complete the project and fund all development costs, including cost overruns. The Company s exposure under the guarantee was $184 million at September 30, 2009, which assumes the co-owner honors its joint guarantee.

In the normal course of business, the Company may facilitate securities lending transactions on behalf of mutual funds and separate accounts for which the Company is the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the mutual funds or separate accounts to hold them harmless against losses caused by counterparty (i.e. borrower) defaults associated with the securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the mutual fund or separate account at the inception of the loan equal to or greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. As of September 30, 2009, the Company has provided such indemnities for $10,454 million of securities loaned for which the fair value of the related collateral was $10,663 million. The Company believes the possibility of any payments under these indemnities is remote and has not accrued any liability as of September 30, 2009.

As discussed in Note 14, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security. The Company s maximum amount at risk under these credit derivatives, assuming the value of the underlying referenced securities become worthless, is $1,167 million as of September 30, 2009. These credit derivatives generally have maturities of five years or less.

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. At

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

September 30, 2009, such contracts in force carried a total guaranteed value of $7,342 million. These guarantees are supported by collateral that is not reflected on the Company s balance sheet. This collateral had a fair value of $7,546 million at September 30, 2009.

The Company arranges for credit enhancements of certain debt instruments that provide financing for commercial real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt instruments. At September 30, 2009, such enhancement arrangements total $219 million, with remaining contractual maturities of up to fifteen years. The Company s obligations to reimburse required credit enhancement payments are secured by mortgages on the related real estate, which properties are valued at $297 million at September 30, 2009. The Company receives certain ongoing fees for providing these enhancement arrangements and anticipates the extinguishment of its obligation under these enhancements prior to maturity through the aggregation and transfer of its positions to a substitute enhancement provider. At September 30, 2009, the Company has accrued no liability related to these arrangements.

As part of the commercial mortgage activities of the Company s Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and are obligated to make payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company s percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company services $8,069 million of mortgages subject to these loss-sharing arrangements as of September 30, 2009, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of September 30, 2009, these mortgages had an average debt service coverage ratio of 1.65 times and an average loan-to-value ratio of 71%. The maximum exposure to loss as of September 30, 2009, assuming no recovery on any of the underlying collateral, is $1,022 million, with first-loss exposure of $331 million. Over the three years ended December 31, 2008, the Company s total share of losses related to indemnifications that were settled was $8 million, with no additional settlements in the first nine months of 2009. As of September 30, 2009, the Company has established a liability of $24 million related to these indemnifications.

In connection with certain acquisitions, the Company has agreed to pay additional consideration in future periods, contingent upon the attainment by the acquired entity of defined operating objectives. At September 30, 2009, maximum potential future consideration pursuant to such arrangements, to be resolved over the following four years, is $130 million. Any such payments would result in increases in intangible assets, such as goodwill.

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. At September 30, 2009, the Company has accrued liabilities of $6 million associated with all other financial guarantees and indemnity arrangements, which does not include retained liabilities associated with sold

businesses.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Contingent Liabilities

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

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company s businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have either been divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of a litigation or regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

Individual Life and Group Insurance

In April 2009, a purported nationwide class action, *Schultz v. The Prudential Insurance Company of America*, was filed in the United States District Court for the Northern District of Illinois. Plaintiff, a participant in a defined benefit plan governed by ERISA, alleges that pursuant to the terms of the group disability insurance policy funding her plan benefits, Prudential Insurance may not lawfully offset family Social Security disability benefits against Prudential contract benefits because Social Security benefits that members of her family received on account of her disability were not loss of time disability payments. The complaint alleges violations of ERISA, breach of contract and unfair claims practices. Plaintiff seeks recovery of the amount by which the challenged offset reduced her disability benefits, and additional monetary, declaratory and injunctive relief on behalf of a putative class of similarly situated disability claimants who are covered under other plans or policies governed by ERISA and on behalf of a putative class of similarly situated disability claimants who are participants in plans that are exempt from ERISA. In July 2009, the Company filed a motion to dismiss the complaint.

In November 2008, a purported nationwide class action, *Garcia v. Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey. The complaint, which is brought on behalf of beneficiaries of Prudential policies whose death benefits were placed in retained asset accounts, alleges that by investing the death benefits in these accounts, Prudential wrongfully delayed payment and improperly retained undisclosed profits. It alleges claims of breach of the contract of insurance, breach of contract with regard to the retained asset accounts, breach of fiduciary duty and unjust enrichment, and seeks an accounting, disgorgement, injunctive relief, attorneys fees, and prejudgment and post-judgment interest. In March 2009, Prudential filed a motion to dismiss the complaint.

From November 2002 to March 2005, eleven separate complaints were filed against the Company and the law firm of Leeds Morelli & Brown in New Jersey state court. The cases were consolidated for pre-trial proceedings in New Jersey Superior Court, Essex County and captioned *Lederman v. Prudential Financial, Inc., et al.* The complaints allege that an alternative dispute resolution agreement entered into among Prudential

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Insurance, over 350 claimants who are current and former Prudential Insurance employees, and Leeds Morelli & Brown (the law firm representing the claimants) was illegal and that Prudential Insurance conspired with Leeds Morelli & Brown to commit fraud, malpractice, breach of contract, and violate racketeering laws by advancing legal fees to the law firm with the purpose of limiting Prudential s liability to the claimants. In 2004, the Superior Court sealed these lawsuits and compelled them to arbitration. In May 2006, the Appellate Division reversed the trial court s decisions, held that the cases were improperly sealed, and should be heard in court rather than arbitrated. In March 2007, the court granted plaintiffs motion to amend the complaint to add over 200 additional plaintiffs and a claim under the New Jersey discrimination law but denied without prejudice plaintiffs motion for a joint trial on liability issues. In June 2007, Prudential Financial and Prudential Insurance moved to dismiss the complaint. In November 2007, the court granted the motion, in part, and dismissed the commercial bribery and conspiracy to commit malpractice claims, and denied the motion with respect to other claims. In January 2008, plaintiffs filed a demand pursuant to New Jersey law stating that they were seeking damages in the amount of $6.5 billion.

The Company, along with a number of other insurance companies, received formal requests for information from the State of New York Attorney General s Office (NYAG), the Securities and Exchange Commission (SEC), the Connecticut Attorney General s Office, the Massachusetts Office of the Attorney General, the Department of Labor, the United States Attorney for the Southern District of California, the District Attorney of the County of San Diego, and various state insurance departments relating to payments to insurance intermediaries and certain other practices that may be viewed as anti-competitive. In December 2006, Prudential Insurance reached a resolution of the NYAG investigation. Under the terms of the settlement, Prudential Insurance paid a $2.5 million penalty and established a $16.5 million fund for policyholders, adopted business reforms and agreed, among other things, to continue to cooperate with the NYAG in any litigation, ongoing investigations or other proceedings. Prudential Insurance also settled the litigation brought by the California Department of Insurance and agreed to business reforms and disclosures as to group insurance contracts insuring customers or residents in California and to pay certain costs of investigation. In April 2008, Prudential Insurance reached a settlement of proceedings relating to payments to insurance intermediaries and certain other practices with the District Attorneys of San Diego, Los Angeles and Alameda counties. Pursuant to this settlement, Prudential Insurance paid $350,000 in penalties and costs. These matters are also the subject of litigation brought by private plaintiffs, including purported class actions that have been consolidated in the multidistrict litigation in the United States District Court for the District of New Jersey, *In re Employee Benefit Insurance Brokerage Antitrust Litigation*. In August and September 2007, the court dismissed the anti-trust and RICO claims. In January and February 2008, the court dismissed the ERISA claims with prejudice and the state law claims without prejudice. Plaintiffs have appealed to the Third Circuit Court of Appeals.

Retirement Solutions and Investment Management

The Company s subsidiary, Prudential Annuities Life Assurance Corporation, formerly named American Skandia Life Assurance Corporation, has substantially completed a remediation program to correct errors in the administration of approximately 11,000 annuity contracts issued by that company. The owners of these contracts did not receive notification that the contracts were approaching or past their designated annuitization date or default annuitization date (both dates referred to as the contractual annuity date) and the contracts were not annuitized at their contractual annuity dates. Some of these contracts also were affected by data integrity errors resulting in incorrect contractual annuity dates. The lack of notice and data integrity errors, as reflected on the annuities administrative system, all occurred before the acquisition of the American Skandia entities by the Company. The remediation and administrative costs of the remediation program are subject to the indemnification provisions of the acquisition agreement pursuant to which the Company purchased the American Skandia entities in May 2003 from Skandia Insurance Company Ltd (publ) (Skandia).

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

In October 2007, Prudential Retirement Insurance and Annuity Co. (PRIAC) filed an action in the United States District Court for the Southern District of New York, *Prudential Retirement Insurance & Annuity Co. v. State Street Global Advisors,* in PRIAC s fiduciary capacity and on behalf of certain defined benefit and defined contribution plan clients of PRIAC, against an unaffiliated asset manager, State Street Global Advisors (SSgA) and SSgA s affiliate, State Street Bank and Trust Company (State Street). This action seeks, among other relief, restitution of certain losses attributable to certain investment funds sold by SSgA as to which PRIAC believes SSgA employed investment strategies and practices that were misrepresented by SSgA and failed to exercise the standard of care of a prudent investment manager. PRIAC also intends to vigorously pursue any other available remedies against SSgA and State Street in respect of this matter. Given the unusual circumstances surrounding the management of these SSgA funds and in order to protect the interests of the affected plans and their participants while PRIAC pursues these remedies, PRIAC implemented a process under which affected plan clients that authorized PRIAC to proceed on their behalf have received payments from funds provided by PRIAC for the losses referred to above. The Company s consolidated financial statements, and the results of the Retirement segment included in the Company s Investment Division, for the year ended December 31, 2007 include a pre-tax charge of $82 million, reflecting these payments to plan clients and certain related costs. In September 2008, the United States District Court for the Southern District of New York denied the State Street defendants motion to dismiss claims for damages and other relief under Section 502(a)(2) of ERISA, but dismissed the claims for equitable relief under Section 502(a)(3) of ERISA. In October 2008, defendants answered the complaint and asserted counterclaims for contribution and indemnification, defamation and violations of Massachusetts unfair and deceptive trade practices law.

In June 2009, special bankruptcy counsel for Lehman Brothers Holdings Inc. (LBHI), Lehman Brothers Special Financing (LBSF) and certain of their affiliates made a demand of Prudential Global Funding LLC (PGF) for the return of a portion of the $550 million in collateral delivered by LBSF to PGF pursuant to swap agreements and a cross margining and netting agreement between PGF, LBSF and Lehman Brothers Finance S.A. a/k/a Lehman Brothers Finance AG (Lehman Switzerland), a Swiss affiliate that is subject to insolvency proceedings in the United States and Switzerland. LBSF claims that PGF wrongfully applied the collateral to Lehman Switzerland s obligations in violation of the automatic stay in LBSF s bankruptcy case, which is jointly administered under *In re Lehman Brothers Holdings Inc.* in the United States Bankruptcy Court in the Southern District of New York (the Lehman Chapter 11 Cases). In August 2009, PGF filed a declaratory judgment action (the DJ Action) in the same court against LBSF, Lehman Switzerland and LBHI (as guarantor of LBSF and Lehman Switzerland under the swap agreements) seeking an order that (a) PGF had an effective lien on the collateral that secured the obligations of both LBSF ($197 million) and Lehman Switzerland ($488 million) and properly foreclosed on the collateral, leaving PGF with an unsecured $135 million claim against LBSF (and LBHI as guarantor), or, in the alternative, (b) PGF was entitled, under the Bankruptcy Code, to set off amounts owed by Lehman Switzerland against the collateral and the automatic stay was inapplicable. The DJ Action is captioned *Prudential Global Funding LLC v. Lehman Brothers Holdings Inc., et al.* In addition, PGF filed timely contingent claims against LBSF and LBHI, as guarantor of LBSF and Lehman Switzerland, in the Lehman Chapter 11 Cases for any amounts that may be due under the swap agreements, depending upon the results of the DJ action. In October 2009, LBSF and LBHI answered in the DJ Action and asserted counterclaims alleging that PGF breached the swap agreement by applying the collateral to Lehman Switzerland s obligations and failing to pay LBSF interest on the collateral, and violated the Bankruptcy Code by not returning $372 million in excess collateral to LBSF. LBSF and LBHI seek a declaratory judgment that PGF had an effective lien on only $178 million of the collateral, which could only be applied to amounts owed by LBSF and no right of set off against Lehman Switzerland s obligations. The counterclaim seeks the return of the collateral in the amount of $372 million plus interest and the disallowance of PGF s claims against LBSF and LBHI.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Securities

Prudential Securities has been named as a defendant in a number of industry-wide purported class actions in the United States District Court for the Southern District of New York relating to its former securities underwriting business. Plaintiffs in one consolidated proceeding, captioned *In re: Initial Public Offering Securities Litigation*, allege, among other things, that the underwriters engaged in a scheme involving tying agreements, undisclosed compensation arrangements and research analyst conflicts to manipulate and inflate the prices of shares sold in initial public offerings in violation of the federal securities laws. Certain issuers of these securities and their current and former officers and directors have also been named as defendants. In October 2004, the district court granted plaintiffs motion for class certification in six focus cases. In December 2006, the United States Court of Appeals for the Second Circuit vacated that decision and remanded the case to the district court for further proceeding. In August 2000, Prudential Securities was named as a defendant, along with other underwriters, in a purported class action, captioned *CHS Electronics Inc. v. Credit Suisse First Boston Corp. et al.*, which alleges on behalf of issuers of securities in initial public offerings that the defendants conspired to fix at 7% the discount that underwriting syndicates receive from issuers in violation of federal antitrust laws. Plaintiffs moved for class certification in September 2004 and for partial summary judgment in November 2005. In April 2006, the district court denied class certification. In September 2007, the Second Circuit Court of Appeals reversed the district court s decision denying class certification and remanded the cases to the district court for further proceedings. In a related action, captioned *Gillet v. Goldman Sachs et al.*, plaintiffs allege substantially the same antitrust claims on behalf of investors, though only injunctive relief is currently being sought. In June 2008, *CHS Electronics Inc.* and *Gillet* were settled by all defendants. Prudential Securities share of the settlement amount was not material. In September 2009, the court entered a final order approving the settlement of *In re: Initial Public Offering Securities Litigation*. In October 2009, an objector filed a notice of appeal challenging the certification of the settlement class.

Other Matters

Mutual Fund Market Timing Practices

In August 2006, Prudential Equity Group, LLC (PEG), a wholly owned subsidiary of the Company, reached a resolution of the previously disclosed regulatory and criminal investigations into deceptive market related activities involving PEG s former Prudential Securities operations. The settlements relate to conduct that generally occurred between 1999 and 2003 involving certain former Prudential Securities brokers in Boston and certain other branch offices in the U.S., their supervisors, and other members of the Prudential Securities control structure with responsibilities that related to the market timing activities, including certain former members of Prudential Securities senior management. The Prudential Securities operations were contributed to a joint venture with Wachovia Corporation in July 2003, but PEG retained liability for the market timing related activities. In connection with the resolution of the investigations, PEG entered into separate settlements with each of the United States Attorney for the District of Massachusetts (USAO), the Secretary of the Commonwealth of Massachusetts, Securities Division, SEC, the National Association of Securities Dealers, the New York Stock Exchange, the New Jersey Bureau of Securities and the NYAG. These settlements resolve the investigations by the above named authorities into these matters as to all Prudential entities without further regulatory proceedings or filing of charges so long as the terms of the settlement are followed and provided, in the case of the settlement agreement reached with the USAO, that the USAO has reserved the right to prosecute PEG if there is a material breach by PEG of that agreement during its five year term and in certain other specified events. Under the terms of the settlements, PEG paid $270 million into a Fair Fund administered by the SEC to compensate those harmed by the market timing activities. In addition, $330 million was paid in fines and penalties. Pursuant to the settlements, PEG retained, at PEG s ongoing cost and expense, the services of an Independent Distribution Consultant acceptable to certain of the authorities to develop a proposed distribution plan for the distribution of

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Fair Fund amounts according to a methodology developed in consultation with and acceptable to certain of the authorities. In addition, as part of the settlements, PEG agreed, among other things, to continue to cooperate with the above named authorities in any litigation, ongoing investigations or other proceedings relating to or arising from their investigations into these matters. In connection with the settlements, the Company agreed with the USAO, among other things, to cooperate with the USAO and to maintain and periodically report on the effectiveness of its compliance procedures. The settlement documents include findings and admissions that may adversely affect existing litigation or cause additional litigation and result in adverse publicity and other potentially adverse impacts to the Company s businesses.

In addition to the regulatory proceedings described above that were settled in 2006, in October 2004, the Company and Prudential Securities were named as defendants in several class actions brought on behalf of purchasers and holders of shares in a number of mutual fund complexes. The actions are consolidated as part of a multi-district proceeding, *In re: Mutual Fund Investment Litigation,* pending in the United States District Court for the District of Maryland. The complaints allege that the purchasers and holders were harmed by dilution of the funds values and excessive fees, caused by market timing and late trading, and seek unspecified damages. In August 2005, the Company was dismissed from several of the actions, without prejudice to repleading the state claims, but remains a defendant in other actions in the consolidated proceeding. In July 2006, in one of the consolidated mutual fund actions, *Saunders v. Putnam American Government Income Fund, et al.,* the United States District Court for the District of Maryland granted plaintiffs leave to refile their federal securities law claims against Prudential Securities. In August 2006, the second amended complaint was filed alleging federal securities law claims on behalf of a purported nationwide class of mutual fund investors seeking compensatory and punitive damages in unspecified amounts. In June 2008, the Company was dismissed with prejudice from the remaining actions consolidated in *In re: Mutual Fund Investment Litigation* other than *Saunders v. Putnam American Government Income Fund, et al.* In July 2008, the Company moved for summary judgment and plaintiffs moved for class certification in *Saunders.*

Commencing in 2003, the Company received formal requests for information from the SEC and NYAG relating to market timing in variable annuities by certain American Skandia entities. In connection with these investigations, with the approval of Skandia, an offer was made by American Skandia to the SEC and NYAG, to settle these matters by paying restitution and a civil penalty of $95 million in the aggregate. In April 2009, AST Investment Services, Inc., formerly named American Skandia Investment Services, Inc. (ASISI), reached a resolution of these investigations by the SEC and NYAG into market timing related misconduct involving certain variable annuities. The settlements relate to conduct that generally occurred between January 1998 and September 2003. The Company acquired ASISI from Skandia in May 2003. Subsequent to the acquisition, the Company implemented controls, procedures and measures designed to protect customers from the types of activities involved in these investigations. These settlements resolve the investigations by the above named authorities into these matters, subject to the settlement terms. Under the terms of the settlements, ASISI has paid a total of $34 million in disgorgement and an additional $34 million as a civil money penalty. These amounts will be paid into a Fair Fund administered by the SEC to compensate those harmed by the market timing related activities. Pursuant to the settlements, ASISI has retained, at its ongoing cost and expense, the services of an Independent Distribution Consultant acceptable to the Staff of the SEC to develop a proposed distribution plan for the distribution of Fair Fund amounts according to a methodology developed in consultation with and acceptable to the Staff. As part of these settlements, ASISI has undertaken that by the end of 2009 it will undergo a compliance review by an independent third party, who shall issue a report of its findings and recommendations to ASISI s Board of Directors, the Audit Committee of the Advanced Series Trust Board of Trustees and the Staff of the SEC. In addition, ASISI has agreed, among other things, to continue to cooperate with the SEC and NYAG in any litigation, ongoing investigations or other proceedings relating to or arising from their investigations into these matters. Under the terms of the purchase agreement pursuant to which the Company acquired ASISI from Skandia, the Company was indemnified for the costs of the settlements.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Corporate

In April 2009, the Company s Board of Directors (the Board) received a letter demanding that the Board take action to recover allegedly improperly paid compensation to certain current and former employees and executive officers of the Company since at least 2005. The demand is made by a Prudential Financial stockholder, Service Employees International Union Pension Plans Master Trust (SEIU), and is one of many that SEIU has sent to large corporations. SEIU claims that the Company must bring an action, under theories of unjust enrichment and corporate waste, to recoup incentive compensation that was based on allegedly flawed economic metrics. SEIU also seeks rescission of exercised stock options because the options were based on mistaken facts concerning the fair value of the Company s stock. The letter states that between 2005 and 2008 the Company paid cash and equity compensation of approximately $165 million to its senior executives and authorized senior executives to exercise stock options worth approximately $66 million. The letter also demands that the Board enjoin any further approved, but unpaid, compensation payments, overhaul the Company s compensation structure, and allow stockholders an advisory vote on the Compensation Committee s report in the Company s annual proxy statement. SEUI reserves the right to bring a derivative action should the Board decline to act. In May 2009, the Board formed a Special Evaluation Committee, comprised of independent directors, and authorized the Committee to hire outside advisors and experts to assist in its evaluation of the demand letter. The Committee has engaged counsel that is reviewing the matter.

In March 2009, a purported class action, *Bauer v. Prudential Financial, et al.*, was filed in the United States District Court for the District of New Jersey. The case names as defendants, the Company, certain Company Directors, the Chief Financial Officer, Controller and former Chief Executive Officer and former Principal Accounting Officer, underwriters and the Company s independent auditors. The complaint, brought on behalf of purchasers of the Company s 9% Junior Subordinated Notes (retail hybrid subordinated debt), alleges that the Company s March 2006 Form S-3 Registration Statement and Prospectus and the June 2008 Prospectus Supplement, both of which incorporated other public filings, contained material misstatements or omissions. In light of the Company s disclosures in connection with its 2008 financial results, plaintiffs contend that the earlier offering documents failed to disclose impairments in the Company s asset-backed securities collateralized with subprime mortgages and goodwill associated with certain subsidiaries and other assets, and that the Company had inadequate controls relating to such reporting. The complaint asserts violations of the Securities Act of 1933, alleging Section 11 claims against all defendants, Section 12(a)(2) claims against the Company and underwriters and Section 15 claims against the individual defendants, and seeks unspecified compensatory and recessionary damages, interest, costs, fees, expenses and such injunctive relief as may be deemed appropriate by the court. In April 2009, two additional purported class action complaints were filed in the same court, *Haddock v. Prudential Financial, Inc. et al.* and *Pinchuk v. Prudential Financial, Inc. et al.* The complaints essentially allege the same claims and seek the same relief as *Bauer*. In June 2009, *Pinchuk* was voluntarily dismissed and the *Haddock* and *Bauer* matters were consolidated. In July 2009, an amended consolidated complaint was filed that added claims regarding contingent liability relating to the auction rate securities markets and reserves relating to annuity contract holders. The complaint restates the claims regarding impairments related to mortgage backed securities, but does not include prior claims regarding goodwill impairments. The complaint names all of the same defendants as the prior complaints, with the exception of the Company s independent auditors. In September 2009, the Company filed a motion to dismiss the complaint.

Other

In September and October 2005, five purported class action lawsuits were filed against the Company, Prudential Securities and PEG claiming that stockbrokers were improperly classified as exempt employees under state and federal wage and hour laws, were improperly denied overtime pay and that improper deductions were made from the stockbrokers wages. Two of the stockbrokers complaints, *Janowsky v. Wachovia Securities,*

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

LLC and *Prudential Securities Incorporated and Goldstein v. Prudential Financial, Inc*., were filed in the United States District Court for the Southern District of New York. The *Goldstein* complaint purports to have been filed on behalf of a nationwide class. The *Janowsky* complaint alleges a class of New York brokers. Motions to dismiss and compel arbitration were filed in the *Janowsky and Goldstein* matters, which have been consolidated for pre-trial purposes. The three stockbrokers complaints filed in California Superior Court, *Dewane v. Prudential Equity Group, Prudential Securities Incorporated,* and *Wachovia Securities LLC*; *DiLustro v. Prudential Securities Incorporated, Prudential Equity Group Inc. and Wachovia Securities*; and *Carayanis v. Prudential Equity Group LLC and Prudential Securities Inc.*, purport to have been brought on behalf of classes of California brokers. The *Carayanis* complaint was subsequently withdrawn without prejudice in May 2006. In June 2006, a purported New York state class action complaint was filed in the United States District Court for the Eastern District of New York, *Panesenko v. Wachovia Securities, et al*., alleging that the Company failed to pay overtime to stockbrokers in violation of state and federal law and that improper deductions were made from the stockbrokers wages in violation of state law. In September 2006, Prudential Securities was sued in *Badain v. Wachovia Securities, et al.,* a purported nationwide class action filed in the United States District Court for the Western District of New York. The complaint alleges that Prudential Securities failed to pay overtime to stockbrokers in violation of state and federal law and that improper deductions were made from the stockbrokers wages in violation of state law. In December 2006, these cases were transferred to the United States District Court for the Central District of California by the Judicial Panel on Multidistrict Litigation for coordinated or consolidated pre-trial proceedings. In May 2009, a final order was entered by the court approving the settlement of this consolidated action. In October 2006, a class action lawsuit, *Bouder v. Prudential Financial, Inc. and Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey, claiming that Prudential Insurance failed to pay overtime to insurance agents who were registered representatives in violation of federal and Pennsylvania law, and that improper deductions were made from these agents wages in violation of state law. The complaint seeks back overtime pay and statutory damages, recovery of improper deductions, interest, and attorneys fees. In March 2008, the court conditionally certified a nationwide class. In March 2008, a purported nationwide class action lawsuit was filed in the United States District Court for the Southern District of California, *Wang v. Prudential Financial, Inc. and Prudential Insurance,* on behalf of agents who sold the Company s financial products. The complaint alleges claims that the Company failed to pay overtime and provide other benefits in violation of California and federal law and seeks compensatory and punitive damages in unspecified amounts. In September 2008, *Wang* was transferred to the United States District Court for the District of New Jersey and consolidated with the *Bouder* matter. In January 2009, an amended complaint was filed in the consolidated matter which adds wage claims based on the laws of thirteen additional states. In March 2009, a second amended complaint was filed which dropped the breach of contract claims. The Company moved to dismiss certain of the state claims in the consolidated complaint.

Summary

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

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Financial Position

September 30, 2009 and December 31, 2008 (in millions)

	September 30, 2009			December 31, 2008		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities, available for sale, at fair value	$ 128,459	$ 42,431	$ 170,890	$ 119,153	$ 38,903	$ 158,056
Fixed maturities, held to maturity, at amortized cost	5,141		5,141	3,808		3,808
Trading account assets supporting insurance liabilities, at fair value	15,848		15,848	13,875		13,875
Other trading account assets, at fair value	3,656	167	3,823	4,216	120	4,336
Equity securities, available for sale, at fair value	3,747	2,953	6,700	3,665	2,400	6,065
Commercial mortgage and other loans	23,616	8,509	32,125	24,366	8,748	33,114
Policy loans	4,634	5,436	10,070	4,280	5,423	9,703
Securities purchased under agreements to resell	6		6	480		480
Other long-term investments	4,296	1,582	5,878	5,383	1,629	7,012
Short-term investments	6,072	1,767	7,839	4,092	1,484	5,576
Total investments	195,475	62,845	258,320	183,318	58,707	242,025
Cash and cash equivalents	10,524	1,447	11,971	13,054	1,974	15,028
Accrued investment income	1,613	719	2,332	1,603	663	2,266
Deferred policy acquisition costs	13,313	814	14,127	13,127	1,999	15,126
Deferred income taxes, net				(533)	1,639	1,106
Other assets	19,964	625	20,589	21,962	403	22,365
Separate account assets	168,128		168,128	147,095		147,095
TOTAL ASSETS	$ 409,017	$ 66,450	$ 475,467	$ 379,626	$ 65,385	$ 445,011
LIABILITIES AND EQUITY LIABILITIES						
Future policy benefits	$ 72,774	$ 51,689	$ 124,463	$ 70,221	$ 51,730	$ 121,951
Policyholders account balances	95,766	5,592	101,358	93,991	5,622	99,613
Policyholders dividends	415	1,096	1,511	634	1,036	1,670
Securities sold under agreements to repurchase	3,650	3,550	7,200	4,288	3,612	7,900
Cash collateral for loaned securities	2,573	1,175	3,748	2,684	1,484	4,168
Income taxes	3,935	(528)	3,407	364	95	459
Short-term debt	2,182		2,182	10,092	443	10,535
Long-term debt	21,009	1,750	22,759	18,540	1,750	20,290
Other liabilities	14,797	1,067	15,864	17,074	470	17,544
Separate account liabilities	168,128		168,128	147,095		147,095
Total liabilities	385,229	65,391	450,620	364,983	66,242	431,225
COMMITMENTS AND CONTINGENT LIABILITIES						
EQUITY						
Accumulated other comprehensive income (loss)	(99)	198	99	(5,237)	(2,106)	(7,343)
Other attributed equity	23,338	861	24,199	19,529	1,249	20,778

Total attributed equity	23,239	1,059	24,298	14,292	(857)	13,435
Noncontrolling interests	549		549	351		351
Total equity	23,788	1,059	24,847	14,643	(857)	13,786
TOTAL LIABILITIES AND EQUITY	$ 409,017	$ 66,450	$ 475,467	$ 379,626	$ 65,385	$ 445,011

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Three Months Ended September 30, 2009 and 2008 (in millions)

	Three Months Ended September 30,					
	2009			2008		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 3,362	$ 738	$ 4,100	$ 2,799	$ 819	$ 3,618
Policy charges and fee income	613		613	711		711
Net investment income	2,057	801	2,858	2,083	848	2,931
Asset management fees and other income	1,414	36	1,450	51	(8)	43
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(316)	(82)	(398)	(333)	(119)	(452)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	49	(11)	38			
Other realized investment gains (losses), net	(163)	66	(97)	(59)	238	179
Total realized investment gains (losses), net	(430)	(27)	(457)	(392)	119	(273)
Total revenues	7,016	1,548	8,564	5,252	1,778	7,030
BENEFITS AND EXPENSES						
Policyholders benefits	3,086	839	3,925	3,014	940	3,954
Interest credited to policyholders account balances	1,281	36	1,317	461	35	496
Dividends to policyholders	27	539	566	34	745	779
General and administrative expenses	1,754	150	1,904	1,826	171	1,997
Total benefits and expenses	6,148	1,564	7,712	5,335	1,891	7,226
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	868	(16)	852	(83)	(113)	(196)
Income tax benefit	(145)	(8)	(153)	(94)	(55)	(149)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,013	(8)	1,005	11	(58)	(47)
Equity in earnings of operating joint ventures, net of taxes	31		31	(129)		(129)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,044	(8)	1,036	(118)	(58)	(176)
Income (loss) from discontinued operations, net of taxes	(4)		(4)	5		5
NET INCOME (LOSS)	1,040	(8)	1,032	(113)	(58)	(171)
Less: Income (loss) attributable to noncontrolling interests	(50)		(50)	5		5

NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 1,090	$ (8)	$ 1,082	$ (118)	$ (58)	$ (176)

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Nine Months Ended September 30, 2009 and 2008 (in millions)

	Nine Months Ended September 30,					
	2009			2008		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 9,943	$ 2,378	$ 12,321	$ 8,863	$ 2,640	$ 11,503
Policy charges and fee income	2,052		2,052	2,360		2,360
Net investment income	6,182	2,366	8,548	6,358	2,625	8,983
Asset management fees and other income	3,607	88	3,695	1,509	19	1,528
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(2,264)	(1,233)	(3,497)	(1,173)	(479)	(1,652)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	1,246	787	2,033			
Other realized investment gains (losses), net	(250)	(873)	(1,123)	(571)	140	(431)
Total realized investment gains (losses), net	(1,268)	(1,319)	(2,587)	(1,744)	(339)	(2,083)
Total revenues	20,516	3,513	24,029	17,346	4,945	22,291
BENEFITS AND EXPENSES						
Policyholders benefits	9,409	2,743	12,152	8,995	3,005	12,000
Interest credited to policyholders account balances	3,479	106	3,585	1,773	105	1,878
Dividends to policyholders	47	795	842	94	1,402	1,496
General and administrative expenses	6,153	441	6,594	5,889	534	6,423
Total benefits and expenses	19,088	4,085	23,173	16,751	5,046	21,797
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,428	(572)	856	595	(101)	494
Income tax benefit	(103)	(208)	(311)	(16)	(50)	(66)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,531	(364)	1,167	611	(51)	560
Equity in earnings of operating joint ventures, net of taxes	30		30	(62)		(62)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,561	(364)	1,197	549	(51)	498
Income (loss) from discontinued operations, net of taxes	18		18	4		4
NET INCOME (LOSS)	1,579	(364)	1,215	553	(51)	502
Less: Income (loss) attributable to noncontrolling interests	(44)		(44)	37		37
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 1,623	$ (364)	$ 1,259	$ 516	$ (51)	$ 465

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information

1. BASIS OF PRESENTATION

The supplemental combining financial information presents the consolidated financial position and results of operations for Prudential Financial, Inc. and its subsidiaries (together, the Company), separately reporting the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses and the Closed Block Business are both fully integrated operations of the Company and are not separate legal entities. The supplemental combining financial information presents the results of the Financial Services Businesses and the Closed Block Business as if they were separate reporting entities and should be read in conjunction with the Consolidated Financial Statements.

The Company has outstanding two classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

The Closed Block Business was established on the date of demutualization and includes the assets and liabilities of the Closed Block (see Note 6 to the Unaudited Interim Consolidated Financial Statements for a description of the Closed Block). It also includes assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed in Note 2 below) and related unamortized debt issuance costs, as well as an interest rate swap related to the IHC debt; and certain other related assets and liabilities. The Financial Services Businesses consist of the U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance and Investments divisions and Corporate and Other operations.

2. ALLOCATION OF RESULTS

This supplemental combining financial information reflects the assets, liabilities, revenues and expenses directly attributable to the Financial Services Businesses and the Closed Block Business, as well as allocations deemed reasonable by management in order to fairly present the financial position and results of operations of the Financial Services Businesses and the Closed Block Business on a stand alone basis. While management considers the allocations utilized to be reasonable, management has the discretion to make operational and financial decisions that may affect the allocation methods and resulting assets, liabilities, revenues and expenses of each business. In addition, management has limited discretion over accounting policies and the appropriate allocation of earnings between the two businesses. The Company is subject to agreements which provide that, in most instances, the Company may not change the allocation methodology or accounting policies for the allocation of earnings between the Financial Services Businesses and Closed Block Business without the prior consent of the Class B Stock holders or IHC debt bond insurer.

The Financial Services Businesses and Closed Block Business participate in separate internal short-term cash management facilities, pursuant to which they invest cash from securities lending and repurchase activities as well as certain trading and operating activities. The net funds invested in these facilities are generally held in investments that are short term, including mortgage- and asset-backed securities. Historically, a proportionate interest in each security held in a commingled portfolio was allocated to the Financial Services Businesses and the Closed Block Business as of the balance sheet date, based upon their proportional cash contributions to a single facility. Participation in the commingled

facility by the Financial Services Businesses and the Closed Block Business was dependent on cash flows arising from the activities noted above, which in turn, under the historical allocation methodology, could change the allocation of the facility s assets between the two Businesses. A proportionate share of any realized investment gain or loss was recorded by each Business based upon their respective ownership percentages in the commingled facility as of the date of the realized gain or loss.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information (Continued)

Beginning April 1, 2008, management implemented changes in order to permit each Business to hold discrete ownership of its investments in separate facilities without affecting or being affected by the level of participation of the other Business. With these changes, any realized investment gain or loss are recorded by the respective Businesses based upon their discrete ownership of investments in their facility. Beginning in the third quarter of 2007, pending the implementation of these changes, the commingled facility was managed so that the proportionate interests of the Financial Services Businesses and Closed Block Business in the entire facility were maintained at approximately the same proportions held as of June 30, 2007 (approximately 49% and 51%, respectively).

General corporate overhead not directly attributable to a specific business that has been incurred in connection with the generation of the businesses revenues is generally allocated between the Financial Services Businesses and the Closed Block Business based on the general and administrative expenses of each business as a percentage of the total general and administrative expenses for all businesses.

Prudential Holdings, LLC, a wholly owned subsidiary of Prudential Financial, Inc., has outstanding senior secured notes (the IHC debt), of which net proceeds of $1.66 billion were allocated to the Financial Services Businesses concurrent with the demutualization on December 18, 2001. The IHC debt is serviced by the cash flows of the Closed Block Business, and the results of the Closed Block Business reflect interest expense associated with the IHC debt.

Income taxes are allocated between the Financial Services Businesses and the Closed Block Business as if they were separate companies based on the taxable income or losses and other tax characterizations of each business. If a business generates benefits, such as net operating losses, it is entitled to record such tax benefits to the extent they are expected to be utilized on a consolidated basis.

Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses; holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business; and holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

The results of the Financial Services Businesses are subject to certain risks pertaining to the Closed Block. These include any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, the cost of indemnifying the investors with respect to certain matters will be borne by the Financial Services Businesses.

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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 consolidated financial condition of Prudential Financial as of September 30, 2009, compared with December 31, 2008, and its consolidated results of operations for the three and nine months ended September 30, 2009 and 2008. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A and the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Risk Factors section included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, as well as the Risk Factors section, the statements under Forward-Looking Statements and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

Prudential Financial has two classes of common stock outstanding. The Common Stock, which is publicly traded (NYSE:PRU), reflects the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and does not trade on any exchange, reflects the performance of the Closed Block Business. The Financial Services Businesses and the Closed Block Business are discussed below.

Financial Services Businesses

Our Financial Services Businesses consist of three operating divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance and Investments division consists of our International Insurance and International Investments segments. Our Corporate and Other operations include our real estate and relocation services business, as well as corporate items and initiatives that are not allocated to business segments. Corporate and Other operations also include businesses that have been or will be divested, including our investment in the retail brokerage joint venture with Wachovia Securities (now, Wells Fargo Advisors), and businesses that we have placed in wind-down status.

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt which costs are reflected in Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

We seek growth internally and through acquisitions, joint ventures or other forms of business combinations or investments. Our principal acquisition focus is in our current business lines, both domestic and international.

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 6 to the Consolidated Financial Statements for more information on the Closed Block. At the time of demutualization, we determined the amount of Closed Block assets so that the Closed Block assets

initially had a lower book value than the Closed Block liabilities. We expect that the Closed Block assets will generate sufficient cash flow, together with anticipated revenues from the Closed Block policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits to be paid to, and the reasonable dividend expectations of, holders of the Closed Block policies. We also segregated for accounting purposes the assets that we need to hold outside the Closed Block to meet capital requirements related to the Closed Block policies. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to ultimately decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses.

Concurrently with our demutualization, Prudential Holdings, LLC, a wholly owned subsidiary of Prudential Financial that owns the capital stock of Prudential Insurance, issued $1.75 billion in senior secured notes, which we refer to as the IHC debt. The net proceeds from the issuances of the Class B Stock and IHC debt, except for $72 million used to purchase a guaranteed investment contract to fund a portion of the bond insurance cost associated with that debt, were allocated to the Financial Services Businesses. However, we expect that the IHC debt will be serviced by the net cash flows of the Closed Block Business over time, and we include interest expenses associated with the IHC debt when we report results of the Closed Block Business.

The Closed Block Business consists principally of the Closed Block, assets that we must hold outside the Closed Block to meet capital requirements related to the Closed Block policies, invested assets held outside the Closed Block that represent the difference between the Closed Block assets and Closed Block liabilities and the interest maintenance reserve, deferred policy acquisition costs related to Closed Block policies, the principal amount of the IHC debt and related hedging activities, and certain other related assets and liabilities.

The Closed Block Business is not a separate legal entity from the Financial Services Businesses; however, they are operated as separate entities and are separated for financial reporting purposes. The Financial Services Businesses are not obligated to pay dividends on Closed Block policies. Dividends on Closed Block policies reflect the experience of the Closed Block over time and are subject to adjustment by Prudential Insurance s Board of Directors. Further, our plan of demutualization provides that we are not required to pay dividends on policies within the Closed Block from assets that are not within the Closed Block and that the establishment of the Closed Block does not represent a guarantee that any certain level of dividends will be maintained.

Executive Summary

Prudential Financial, a financial services leader with approximately $641 billion of assets under management as of September 30, 2009, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Current Developments

Financial Markets. The global financial markets have recently shown marked improvement after experiencing extreme stress since the second half of 2007 through the early portion of 2009. During this period, volatility and disruption in the global financial markets reached unprecedented levels for the post World War II period and the availability and cost of credit was materially affected. These factors, combined with recent economic conditions, including depressed home and commercial real estate prices and increasing foreclosures, depressed equity market values, declining business and consumer confidence, and rising unemployment, resulted in a severe economic recession.

As further discussed in Liquidity and Capital Resources, the U.S. federal government has taken numerous actions to address financial market conditions. These actions include the U.S. Treasury s Capital Purchase Program, which is part of the Troubled Asset Relief Program, or TARP, as well as the Term Asset-Backed Securities Loan Facility, or TALF. The TARP Capital Purchase Program involves the issuance by qualifying institutions of preferred stock and warrants to purchase common stock to the U.S. Treasury. TALF is designed to provide secured financing for certain types of asset-backed securities, including certain high-quality commercial mortgage-backed securities issued before January 1, 2009. We applied in October 2008 to participate in the TARP Capital Purchase Program and on May 14, 2009, we received preliminary approval from the U.S. Treasury to participate in the program. However, on June 1, 2009, we announced that we would not participate in the TARP Capital Purchase Program. In the first quarter of 2009, we began participating in TALF as an eligible borrower. We continue to evaluate other government sponsored programs for which we may be eligible.

Markets have shown marked improvement since late second quarter of 2009. Equity markets have appreciated, with less volatility, and bond spreads have tightened significantly. We have been able to take advantage of the improving market conditions, and have raised approximately $4.4 billion in financing during the first nine months of 2009 through the following:

- Issued 36.9 million shares of Prudential Financial Common Stock in a public offering (at a price of $39.00 per share for net proceeds of $1.391 billion).

- Issued $2.5 billion of Prudential Financial medium-term notes.

- Issued $500 million of Prudential Insurance surplus notes, exchangeable for Prudential Financial Common Stock.

Due to the continuation of the financial market dislocations into early 2009 and in order to continue to manage our liquidity and capital resources, we undertook certain other actions in the first nine months of 2009, including the following:

- Provided notice to Wells Fargo, on June 17, 2009, of the exercise of our lookback option put rights related to our minority joint venture interest in Wachovia Securities.

- Made capital contributions and capital loans to our international insurance operations in Japan totaling $366 million.

- Borrowed $1.5 billion in the form of collateralized funding agreements from the Federal Home Loan Bank of New York, or FHLBNY, which was subsequently used to replace inter-company funding agreements between Prudential Insurance and Prudential Financial, previously funded through proceeds from the sale of Prudential Financial s retail medium-term notes, making the corresponding proceeds available for general corporate purposes.

- Reduced exposure to short-term financing markets, primarily through planned runoff of commercial paper borrowings.

- Undertook sales of assets held by some of our affiliates to reduce their borrowing needs.

While the above actions have strengthened our liquidity and capital position, certain of them, as well as our decision to maintain higher levels of cash and short-term investments than in prior periods, have had a negative impact on current earnings. For additional information on our liquidity and capital resources, and the actions we undertook in the first nine months of 2009, see Liquidity and Capital Resources.

We continue to monitor the liquidity and capital needs of Prudential Financial and its subsidiaries. If the recent improvements in the capital markets prove temporary and earlier disruptions in the capital markets were to resume, we may take additional capital management actions to maintain capital consistent with our rating objectives, which may include additional internal actions or, if internal resources are insufficient or market conditions deteriorate, further access to external sources of capital, if available.

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During the first nine months of 2009, rating agencies downgraded certain ratings of Prudential Financial and its subsidiaries. Downgrades in our claims-paying or credit ratings could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors or trading counterparties thereby potentially negatively effecting our profitability, liquidity and/or capital. Refer to Ratings for more information.

Our financial condition and results of operations for the first nine months of 2009 reflect the following:

Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the three and nine months ended September 30, 2009 was $1.090 billion and $1.623 billion, respectively, reflecting the positive impact of improved financial market conditions beginning in late second quarter of 2009 on reported results.

Pre-tax net realized investment losses and related adjustments of the Financial Services Businesses for the three and nine months ended September 30, 2009 were $183 million and $1.765 billion, respectively, primarily reflecting other-than-temporary impairments of fixed maturity and equity securities of $329 million and $1.397 billion, for the three and nine months ended September 30, 2009, respectively. Also impacting the nine months ended September 30, 2009 were decreases in the fair value of derivatives used in investment duration management and hedging programs of $582 million. Partially offsetting these items were increases in market value of certain externally managed investments in the European market, which impacted both the three and nine months ended September 30, 2009.

Net unrealized gains on general account fixed maturity investments of the Financial Services Businesses amounted to $979 million as of September 30, 2009, compared to net unrealized losses of $6.567 billion as of December 31, 2008. Gross unrealized gains increased from $4.684 billion as of December 31, 2008 to $5.735 billion as of September 30, 2009 and gross unrealized losses decreased from $11.251 billion to $4.756 billion for the same periods as credit spreads tightened across most asset classes. Net unrealized gains on general account fixed maturity investments of the Closed Block Business amounted to $229 million as of September 30, 2009, compared to net unrealized losses of $4.035 billion as of December 31, 2008.

Individual Annuity gross sales for the third quarter of 2009 reached a record high of $5.9 billion, an increase from $2.5 billion in the prior year quarter. Individual Annuity net sales for the third quarter of 2009 were $4.4 billion, an increase from $481 million in the prior year quarter, and were $7.1 billion in the first nine months of 2009, an increase from $1.6 billion in the prior year.

Full Service Retirement gross deposits and sales were $4.8 billion and net additions were $1.5 billion for the third quarter of 2009, an increase from gross deposits and sales of $3.3 billion and net additions of $393 million in the prior year quarter.

We also continued to have positive net flows in our asset management business, as well as solid sales in our domestic and international insurance businesses, in the third quarter and first nine months of 2009.

For the third quarter of 2009, our International Insurance segment had a record level of adjusted operating income.

As of September 30, 2009, Prudential Financial, the parent holding company, had cash and short-term investments of $4.233 billion.

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Results of Operations

We analyze performance of the segments and Corporate and Other operations of the Financial Services Businesses using a measure called adjusted operating income. See Consolidated Results of Operations for a definition of adjusted operating income and a discussion of its use as a measure of segment operating performance.

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the three and nine months ended September 30, 2009 and 2008 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Adjusted operating income before income taxes for segments of the Financial Services Businesses:				
Individual Annuities	$ 166	$ (307)	$ 615	$ (38)
Retirement	119	133	377	398
Asset Management	29	(8)	61	301
Individual Life	243	238	421	437
Group Insurance	64	101	262	271
International Insurance	500	460	1,390	1,326
International Investments	13	37	39	88
Corporate and Other	(201)	(38)	(529)	(109)
Reconciling Items:				
Realized investment gains (losses), net, and related adjustments	(183)	(564)	(1,765)	(1,756)
Charges related to realized investment gains (losses), net	(51)	17	(12)	45
Investment gains (losses) on trading account assets supporting insurance liabilities, net	694	(534)	1,525	(919)
Change in experience-rated contractholder liabilities due to asset value changes	(458)	388	(850)	682
Divested businesses	25	(219)	(31)	(276)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(92)	213	(75)	145
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	868	(83)	1,428	595
Income (loss) from continuing operations before income taxes for Closed Block Business	(16)	(113)	(572)	(101)
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 852	$ (196)	$ 856	$ 494

Results for the three and nine months ended September 30, 2009 presented above reflect the following:

Individual Annuities segment results for the third quarter and first nine months of 2009 increased in comparison to the prior year periods primarily reflecting the impact of improved market conditions. Results for the three and nine month periods include a favorable variance of $629 million and $727 million, respectively, related to adjustments to the amortization of deferred policy acquisition and other

costs and the reserves for our variable annuity products, largely reflecting improved financial market conditions in 2009. The favorable variance in both periods was partially offset by mark-to-market losses of $140 million and $142 million, for the three and nine month periods, respectively, related to derivative positions associated with our capital hedging program, which we began in the second quarter of 2009. Results for both periods were also impacted by a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts, and an increase in investment results. Also impacting the nine month period was an $895 million favorable variance related to the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. This variance was largely driven by changes in our adjustment to the embedded derivative liabilities for market-perceived non-performance risk, and resulted in a corresponding $641 million increase in the amortization of deferred policy acquisition and other costs.

Retirement segment results for the third quarter and first nine months of 2009 decreased in comparison to the corresponding prior year periods. Results for both periods include the impact of our annual review of the assumptions and other cumulative adjustments relating to the amortization of deferred policy acquisition costs and valuation of business acquired. Absent the impact of these items, results for the third quarter and first nine months of 2009 increased in comparison to the corresponding prior year periods, driven by improved investment results in our full service and institutional investments products businesses. A decline in asset based fees in our full service business was a partial offset.

Asset Management segment results for the third quarter of 2009 increased in comparison to the third quarter of 2008, largely attributable to a reduction in losses from the segment s proprietary investing activities, partially offset by unfavorable results from the segment s commercial mortgage activities reflecting an increase in the interim loan loss provision, as well as lower asset management fees. Results for the first nine months of 2009 decreased due to lower asset management fees, performance based incentive fees and transaction fees, as well as unfavorable results from the segment s commercial mortgage activities reflecting an increase in the interim loan loss provision, partially offset by lower compensation costs.

Individual Life segment results for the third quarter of 2009 improved slightly from the third quarter of 2008. Results for both periods benefited from lower amortization of net deferred policy acquisition costs and unearned revenue reserves reflecting updates of our actuarial assumptions based on an annual review. The third quarter of 2009 benefit was $55 million, which included an increase in reserves for the guaranteed minimum death benefit feature in certain contracts. The comparable benefit for the same period last year was $79 million. Results for both periods also benefited from compensation received based on multi-year profitability of third-party products we distribute, which benefited the current year period $30 million and the prior year period $53 million. Absent the impact of these items, results for the third quarter of 2009 increased $52 million in comparison to the corresponding prior year period, primarily reflecting an additional decrease in amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves, to reflect the quarterly impact of changes to the estimate of total gross profits primarily due to favorable separate account fund performance in the period. Results for the first nine months of 2009 decreased from the first nine months of 2008. Absent the impact of the annual review and compensation received on third-party products we distribute, results for the first nine months of 2009 increased $31 million compared with the first nine months of 2008. The increase primarily reflects a decrease in amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves associated with favorable separate account fund performance, partially offset by a decrease in asset based fees.

Group Insurance segment results declined in the third quarter of 2009, reflecting less favorable claims experience in both our group disability and group life businesses and the benefit in the prior year quarter from annual reserve refinements. Group Insurance segment results declined in the first nine months of 2009, reflecting the prior year benefits of a premium adjustment for updated data on a large case and annual reserve refinements. Excluding these benefits in the prior year, the segment results for the first nine months of 2009 improved, reflecting growth in both our group life and group disability businesses.

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The International Insurance segment is comprised of its Life Planner and Gibraltar Life operations. Results from the segment s Life Planner operations improved in both the third quarter of 2009 and the first nine months of 2009, reflecting the continued growth of our Japanese Life Planner operations. In addition, results for the first nine months of 2009 reflect a $25 million benefit from the migration to a new policy valuation system, which was partially offset by higher general and administrative expenses. Results from the segment s Gibraltar Life operation improved in both the third quarter of 2009 and the first nine months of 2009, reflecting $25 million of earnings in the third quarter of 2009 from the acquired former Yamato Life business. The earnings from Yamato include approximately $15 million largely related to initial surrenders of policies following the restructuring of the business, essentially consistent with our overall expectations. Results for the first nine months of 2009 for the Gibraltar Life operations also reflect a decline in expense and other margins, which mainly reflects higher general and administrative expenses.

International Investments segment results declined in both the third quarter and first nine months of 2009, reflecting less favorable results from the segment s global commodities group, as well as lower results from the segment s Korean asset management operation in the first nine months of 2009.

Corporate and Other results for the third quarter of 2009 declined from the third quarter of 2008 primarily due to lower earnings from the investment of debt issuance proceeds in cash and short-term investments and increased interest expense on a higher level of capital debt. Results for the first nine months of 2009 declined from the first nine months of 2008 primarily due to lower earnings from the investment of debt issuance proceeds in cash and short-term investments, increased interest expense on capital debt, and greater losses in our real estate and relocation services business.

Realized investment gains (losses), net, and related adjustments for the Financial Services Businesses in the third quarter and first nine months of 2009 amounted to losses of $183 million and $1,765 million, respectively, primarily reflecting other-than-temporary impairments of fixed maturity and equity securities of $329 million and $1,397 million, respectively. Also impacting the first nine months of 2009 were decreases in the fair value of derivatives used in investment duration management and hedging programs of $582 million. Partially offsetting these items were increases in the market value of certain externally managed investments in the European market, which impacted both the third quarter and first nine months of 2009.

Loss from continuing operations before income taxes in the Closed Block Business decreased $97 million in the third quarter of 2009 compared to the third quarter of 2008. Results reflect the benefit from a decrease in dividends to policyholders and the cumulative earnings policyholder dividend obligation, partially offset by a decrease in net realized investment gains and net investment income. Loss from continuing operations before income taxes in the Closed Block Business increased $471 million for the first nine months of 2009 compared to the first nine months of 2008. Results reflect higher net realized investment losses and a decrease in net investment income, which were partially offset by a decrease in dividends to policyholders and the cumulative earnings policyholder dividend obligation which was reduced to zero in 2009.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions:

- Valuation of investments, including the recognition of other-than-temporary impairments and loss reserves;
- Policyholder liabilities;
- Deferred policy acquisition costs;
- Goodwill;
- Pension and other postretirement benefits;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

See below for an updated discussion of the application of estimates and assumptions around Goodwill. For an updated discussion of the application of estimates and assumptions around the valuation of investments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities. For an updated discussion of the application of estimates and assumptions around the recognition of other-than-temporary impairments, see Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities.

A discussion of each of the remaining critical accounting estimates may be found in our Annual Report on Form 10-K for the year ended December 31, 2008, under Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

Goodwill

Goodwill is tested for impairment on an annual basis as of December 31 of each year and more frequently if events occur or circumstances change that would indicate a potential for impairment. The test is performed at the reporting unit level which is equal to or one level below our operating segments. Reporting units that have goodwill subject to testing are the Asset Management segment, the International Insurance segment s Life Planners business, and the Retirement segment s full service business.

The Company did not evaluate goodwill for impairment as of September 30, 2009, as no events occurred or circumstances changed that would have more likely than not reduced the fair value of a reporting unit below its carrying amount during the third quarter of 2009. The carrying value of goodwill was $710 million as of September 30, 2009. Significant market declines or other events impacting the fair value of the

reporting units that have goodwill, or increases in the level of equity required to support these reporting units, could result in an impairment of some or all of the goodwill in future periods, resulting in a charge to General and administrative expenses.

Accounting Pronouncements Adopted

See Note 2 to the Unaudited Interim Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements, including the adoption of revised authoritative guidance for disclosing fair value of financial instruments, the recognition and presentation of other-than-temporary impairments, fair value measurements and disclosures, the accounting for convertible debt instruments, earnings per share, and the accounting for noncontrolling interests in consolidated financial statements.

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Recent Accounting Pronouncements

See Note 2 to the Unaudited Interim Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Consolidated Results of Operations

The following table summarizes income from continuing operations for the Financial Services Businesses and the Closed Block Business as well as other components comprising net income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Financial Services Businesses by segment:				
Individual Annuities	$ 146	$ (363)	$ 545	$ (167)
Retirement	392	(249)	376	(514)
Asset Management	(6)	(1)	5	336
Total U.S. Retirement Solutions and Investment Management Division	532	(613)	926	(345)
Individual Life	286	80	496	209
Group Insurance	54	55	63	22
Total U.S. Individual Life and Group Insurance Division	340	135	559	231
International Insurance	339	387	524	880
International Investments	(4)	29	3	69
Total International Insurance and Investments Division	335	416	527	949
Corporate and Other	(339)	(21)	(584)	(240)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	868	(83)	1,428	595
Income tax benefit	(145)	(94)	(103)	(16)
Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	1,013	11	1,531	611
Equity in earnings of operating joint ventures, net of taxes	31	(129)	30	(62)
Income (loss) from continuing operations for Financial Services Businesses	1,044	(118)	1,561	549
Income (loss) from discontinued operations, net of taxes	(4)	5	18	4
Net income (loss) Financial Services Businesses	1,040	(113)	1,579	553
Less: Income (loss) attributable to noncontrolling interests	(50)	5	(44)	37
Net income (loss) of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 1,090	$ (118)	$ 1,623	$ 516
Basic income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 2.37	$ (0.27)	$ 3.69	$ 1.26
Diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 2.36	$ (0.27)	$ 3.68	$ 1.25
Basic net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 2.36	$ (0.25)	$ 3.74	$ 1.27

Diluted net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 2.35	$ (0.25)	$ 3.72	$ 1.26
Closed Block Business:				
Income (loss) from continuing operations before income taxes for Closed Block Business	$ (16)	$ (113)	$ (572)	$ (101)
Income tax benefit	(8)	(55)	(208)	(50)
Income (loss) from continuing operations for Closed Block Business	(8)	(58)	(364)	(51)
Income from discontinued operations, net of taxes				
Net income (loss) Closed Block Business	(8)	(58)	(364)	(51)
Less: Income (loss) attributable to noncontrolling interests				
Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ (8)	$ (58)	$ (364)	$ (51)
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ (10.00)	$ (34.00)	$ (199.00)	$ (43.50)
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock	$ (10.00)	$ (34.00)	$ (199.00)	$ (43.50)
Consolidated:				
Net income (loss) attributable to Prudential Financial, Inc.	$ 1,082	$ (176)	$ 1,259	$ 465

Results of Operations Financial Services Businesses

2009 to 2008 Three Month Comparison. Income (loss) from continuing operations for the Financial Services Businesses increased $1.162 billion, from a loss of $118 million in the third quarter of 2008 to income of $1.044 billion in the third quarter of 2009. The increase in income reflects a favorable variance related to adjustments to the amortization of deferred policy acquisition and other costs and the reserves for our variable annuity products primarily due to improved market conditions in 2009. In addition, income reflects an increase in other revenues, partially offset by an increase in benefits and expenses, due to changes in value of recorded assets and recorded liabilities that are expected to ultimately accrue to contractholders. Income also includes a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting the impact of currency fluctuations, as well as business growth in our International Insurance operations. On a diluted per share basis, income (loss) from continuing operations attributable to the Financial Services Businesses for the three months ended September 30, 2009 of $2.36 per share of Common Stock increased from $(0.27) per share of Common Stock for the three months ended September 30, 2008. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $12 million for the three months ended September 30, 2009, compared to $10 million for the three months ended September 30, 2008. The direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. As statutory cash premiums and policies in force in the Closed Block Business decline, we generally expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

2009 to 2008 Nine Month Comparison. Income (loss) from continuing operations for the Financial Services Businesses increased $1.012 billion, from income of $549 million for the first nine months of 2008 to income of $1.561 billion for the first nine months of 2009. The increase in income reflects a favorable variance related to adjustments to the amortization of deferred policy acquisition and other costs and the reserves for our variable annuity products primarily due to improved market conditions in 2009. In addition, income reflects an increase in other revenues, partially offset by an increase in benefits and expenses, due to changes in value of recorded assets and recorded liabilities that are expected to ultimately accrue to contractholders. Results for the current year include a lower level of pre-tax net investment losses in our general account as compared to the prior year, as well as a favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with certain variable annuity products. This variance was largely driven by changes in our adjustment to the embedded derivative liabilities for market-perceived non-performance risk, and resulted in a related increase in the amortization of deferred policy acquisition and other costs. Income also includes a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting the impact of currency fluctuations, as well as business growth in our International Insurance operations. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for the nine months ended September 30, 2009 of $3.68 per share of Common

Stock increased from $1.25 per share of Common Stock for the nine months ended September 30, 2008. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $34 million for the nine months ended September 30, 2009, compared to $36 million for the nine months ended September 30, 2008.

Results of Operations Closed Block Business

2009 to 2008 Three Month Comparison. Income (loss) from continuing operations for the Closed Block Business for the three months ended September 30, 2009, was a loss of $8 million, or $(10.00) per share of Class B Stock, compared to a loss of $58 million, or $(34.00) per share of Class B Stock, for the three months ended September 30, 2008. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $12 million for the three months ended September 30, 2009, compared to $10 million for the three months ended September 30, 2008. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

2009 to 2008 Nine Month Comparison. Income (loss) from continuing operations for the Closed Block Business for the nine months ended September 30, 2009, was a loss of $364 million, or $(199.00) per share of Class B Stock, compared to a loss of $51 million, or $(43.50) per share of Class B Stock, for the nine months ended September 30, 2008. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $34 million for the nine months ended September 30, 2009, compared to $36 million for the nine months ended September 30, 2008. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

Segment Measures

In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our segments operating performance using adjusted operating income. Results of the Closed Block Business for all periods are evaluated and presented only in accordance with U.S. GAAP. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance.

Adjusted operating income is calculated for the segments of the Financial Services Businesses by adjusting each segment s income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the following items:

realized investment gains (losses), net, except as indicated below, and related charges and adjustments;

net investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes;

- the contribution to income/loss of divested businesses that have been or will be sold or exited that do not qualify for "discontinued operations" accounting treatment under U.S. GAAP; and

- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

The items above are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of the Financial Services Businesses.

Adjusted operating income excludes "Realized investment gains (losses), net," except as indicated below, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses from sales of securities. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities, as well as our tax and capital profile. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of these transactions. Similarly, adjusted operating income excludes investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes, because these recorded changes in asset and liability values are expected to ultimately accrue to the contractholders. Adjusted operating income excludes the results of divested businesses because they are not relevant to understanding our ongoing operating results. The contributions to income/loss of wind-down businesses that we have not divested remain in adjusted operating income. See Note 11 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results.

As noted above, certain "Realized investment gains (losses), net," are included in adjusted operating income. We include in adjusted operating income the portion of our realized investment gains and losses on derivatives that arise from the termination of contracts used to hedge our foreign currency earnings in the same period that the expected earnings emerge. Similarly, we include in adjusted operating income the portion of realized investment gains and losses on derivatives that represent current period yield adjustments. The realized investment gains or losses from products that are free standing derivatives, or contain embedded derivatives, along with the realized investment gains or losses from associated derivative portfolios that are part of an economic hedging program related to the risk of these products, are included in adjusted operating income. Adjusted operating income also includes those realized investment gains and losses that represent profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors.

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Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

Operating Results

The following table sets forth the Individual Annuities segment s operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues	$ 424	$ 528	$ 2,431	$ 1,723
Benefits and expenses	258	835	1,816	1,761
Adjusted operating income	166	(307)	615	(38)
Realized investment gains (losses), net, and related adjustments(1)	37	(75)	19	(180)
Related charges(1)(2)	(57)	19	(89)	51
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 146	$ (363)	$ 545	$ (167)

(1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. The related charges represent payments related to the market value adjustment features of certain of our annuity products. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on change in reserves and the amortization of deferred policy acquisition costs, deferred sales inducements and value of business acquired.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income increased $473 million, from a loss of $307 million in the third quarter of 2008 to income of $166 million in the third quarter of 2009. As shown in the following table, adjusted operating income for the third quarter of 2009 included $211 million of benefits related to adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, compared to $418 million of charges included in the third quarter of 2008, resulting in a $629 million favorable variance.

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustment(3)	$ 80	$ 176	$ 256	$ (133)	$ (147)	$ (280)
Annual review / assumption updates	(30)	(19)	(49)	18	(118)	(100)
Quarterly adjustment for current period experience	(24)	28	4	(22)	(16)	(38)
Total	$ 26	$ 185	$ 211	$ (137)	$ (281)	$ (418)

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(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of deferred policy acquisition, or DAC, and other costs.
(2) Amounts reflect (charges) or benefits for reserve (increases) or decreases, respectively, related to the guaranteed minimum death and income benefit, or GMDB / GMIB, features of our variable annuity products.
(3) As discussed below, market performance related adjustments were recognized quarterly beginning in the fourth quarter of 2008. Amounts for the third quarter of 2008 were recognized as part of our annual reviews.

These adjustments primarily reflect the market conditions that existed in the respective periods, and the impact of those market conditions on contractholder behavior, and are discussed individually in more detail below. Partially offsetting the net benefit from these adjustments was $140 million of mark-to-market losses related to derivative positions associated with our capital hedging program. In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges primarily consist of equity options which are designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. In the third quarter of 2009, favorable market conditions resulted in an overall improvement in our capital position, which was partially offset by the mark-to-market losses on the capital hedges. In our living benefit hedging program, the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features resulted in a $5 million favorable variance, as discussed below.

The $256 million of benefits in the third quarter of 2009 relating to the quarterly market performance adjustments shown in the table above are attributable to changes to our estimate of total gross profits to reflect actual fund performance in the third quarter of 2009. The actual rate of return on variable annuity account values for the third quarter of 2009 was 10.6% compared to our previously expected rate of return of 2.4%. The $280 million charge in the third quarter of 2008 reflects the impact on gross profits of market value decreases in the underlying assets associated with our variable annuity products in 2008, and was recognized as part of our annual reviews. Beginning in the fourth quarter of 2008 we determined that adjustments to our estimate of total gross profits to reflect actual fund performance and any corresponding changes to the future rate of return assumptions should no longer be dependent on a comparison to a statistically generated range of estimated gross profits. Instead, for purposes of evaluating deferred policy acquisition and other costs and the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, total estimated gross profits are updated for these items each quarter. The better than expected market return in the third quarter of 2009 increased our estimates of total gross profits by establishing a new, higher starting point for the variable annuity account values used in estimating gross profits for future periods. The previously expected rate of return for the third quarter of 2009, for most contract groups, was based upon our maximum future rate of return assumption under the reversion to the mean approach, as discussed below. The increase in our estimate of total gross profits results in a lower required rate of amortization and lower required reserve provisions, which are applied to all prior periods gross profits. The resulting cumulative adjustment to prior amortization and reserve provisions are recognized in the current period. In addition, the lower rate of amortization and reserve provisions will also be applied to future gross profits in calculating amortization and the provision for reserves in future periods which, all else being equal, will result in lower amortization, lower reserve provisions and higher net profits in future periods.

As shown in the table above, results for both periods include the impact of the annual reviews of the assumptions used in the reserve for the guaranteed minimum death and income benefit features of our variable annuity products and in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. The third quarter of 2009 included $49 million of charges from these annual reviews, primarily related to reductions in the future rate of return assumptions applied to the underlying assets associated with our variable annuity products. These reductions were primarily driven by updates to the asset allocation assumptions for these underlying assets based on our actual experience, to reflect a higher percentage of lower-yielding fixed income investments versus higher-yielding equity investments. This adjustment impacted both our long-term future rate of return assumption and our near-term maximum future rate of return under the reversion

to the mean approach, as discussed below. Partially offsetting the impact of the updated future rate of return assumptions were benefits related to the impact of lower mortality and higher investment spread assumptions. Adjusted operating income for the third quarter of 2008 included $100 million of charges from these annual reviews, primarily reflecting increased cost of expected income and death benefit claims due to lower expected lapse rates for policies where the current policyholder account value is below the guaranteed minimum death benefit.

As mentioned above, we derive our near-term future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. However, beginning in the fourth quarter of 2008 and continuing through the third quarter of 2009, the projected future annual rate of return calculated using the reversion to the mean approach for most contract groups was greater than our maximum future rate of return assumption across all asset types for this business. In those cases, we utilize the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. As discussed above, the near-term maximum future rate of return under the reversion to the mean approach was reduced in the third quarter of 2009 from 10.5% to 9.7% as part of our annual reviews. Included in this revised blended maximum future rate are assumptions for returns on various asset classes, including a 13% annual maximum rate of return on equity investments. Further or continued market volatility could result in additional market value changes within our separate account assets and corresponding changes to our gross profits, as well as additional adjustments to the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Given that the estimates of future gross profits are based upon our maximum future rate of return assumption for most contract groups, all else being equal, future quarterly rates of return higher or lower than 2.4% will result in decreases or increases in the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products.

The quarterly adjustments for current period experience shown in the table above reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods amortization, referred to as an adjustment for current period experience, may be required in the current period. This adjustment to previous periods amortization is in addition to the direct impact of actual gross profits on current period amortization and the market performance related adjustment to our estimates of gross profits for future periods. The adjustments for deferred policy acquisition and other costs in the third quarter of both 2009 and 2008 reflect an increase in amortization due to less favorable than expected gross profits, resulting primarily from the charges related to the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, as described below. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the third quarter of 2009 primarily reflects higher than expected fee income as well as lower than expected actual contract guarantee claims costs in the third quarter of 2009. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the third quarter of 2008 reflected lower than expected fee income and higher actual contract guarantee claims costs, primarily driven by financial market conditions.

The $5 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features referred to above reflects a charge of $89 million in the third quarter of 2009 compared to a charge of $94 million in the third quarter of 2008. The charge in the third quarter of 2009 includes charges of $202 million related to an update of the actuarial and capital markets assumptions used in the valuation of the embedded derivatives, primarily driven by a reduction in the expected lapse rate

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assumption based on actual experience. The charge in the third quarter of 2008 includes a $66 million benefit related to an update of the assumptions used in the valuation of the embedded derivatives, primarily driven by an update of the equity volatility assumption to better match the actual equity indices referenced.

Absent the impact of the assumption updates discussed above, the hedging program for the third quarter of 2009 resulted in a $113 million benefit, reflecting a $279 million benefit related to the change in the fair value of the embedded derivatives, partially offset by a $166 million charge related to the change in the fair value of the related hedge positions. The hedging program for the third quarter of 2008, excluding similar assumption updates as discussed above, resulted in a $160 million charge, reflecting a $492 million charge related to the change in the fair value of the embedded derivatives, partially offset by a $332 million benefit related to the change in the fair value of the related hedge positions. Variances for both periods are primarily driven by differences in the actual performance of the underlying separate account funds relative to the performance of the market indices we utilize as a basis for developing our hedging strategy. Given the sensitivity of the fair value of both the embedded derivatives and related hedge positions to financial market conditions, the variance related to the mark-to-market of these items for a given period will be largely dependent on the financial market conditions throughout the period. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

The primary risk exposures of these optional living benefit features relate to actual deviations from, or changes to, the assumptions used in their original pricing, including equity market returns, interest rates, market volatility, timing of annuitization and withdrawals, contract lapses and contractholder mortality. Together with certain product design elements, our hedging program is designed to limit our exposure to the equity market, interest rate, and market volatility risk inherent in the living benefit features of certain variable annuity products, as part of our overall risk management strategy. A decrease in the availability or an increase in the cost of the derivative hedging instruments used in these hedging activities could have an adverse impact on our results of operations going forward. Changes in our market-perceived non-performance risk or changes in the actuarial assumptions around the timing of annuitization and withdrawals, contract lapses and contractholder mortality could also result in fluctuations in the estimated fair value of the embedded derivatives associated with our living benefit features and could positively or negatively impact our results of operations going forward.

2009 to 2008 Nine Month Comparison. Adjusted operating income increased $653 million, from a loss of $38 million in the first nine months of 2008 to income of $615 million in the first nine months of 2009. As shown in the following table, adjusted operating income for the first nine months of 2009 included $300 million of benefits related to adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, compared to $427 million of charges included in the first nine months of 2008, resulting in a $727 million favorable variance.

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB (2)	Total
	(in millions)					
Quarterly market performance adjustment(3)	$ 38	$ 242	$ 280	$ (133)	$ (147)	$ (280)
Annual review / assumption updates	(30)	(19)	(49)	18	(118)	(100)
Quarterly adjustment for current period experience	48	21	69	(26)	(21)	(47)
Total	$ 56	$ 244	$ 300	$ (141)	$ (286)	$ (427)

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of deferred policy acquisition, or DAC, and other costs.
(2) Amounts reflect (charges) or benefits for reserve (increases) or decreases, respectively, related to the guaranteed minimum death and income benefit, or GMDB / GMIB, features of our variable annuity products.
(3) As discussed below, market performance related adjustments were recognized quarterly beginning in the fourth quarter of 2008. Amounts for the third quarter of 2008 were recognized as part of our annual reviews.

These adjustments primarily reflect the market conditions that existed in the respective periods, and the impact of those market conditions on contractholder behavior, and are discussed individually in more detail below. Also included within the increase in adjusted operating income is an $895 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features largely driven by changes in our market-perceived non-performance risk as discussed below. A corresponding increase in current period gross profits related to this favorable variance led to an offsetting increase in the amortization of deferred policy acquisition and other costs of $641 million. Partially offsetting these increases was $142 million of mark-to-market losses related to derivative positions associated with our capital hedging program, which we began in the second quarter of 2009 as discussed above. Also serving as a partial offset was a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts. The declines in separate account assets were due to market depreciation and transfers of balances to a fixed general account option. The transfer of balances to our general account relates to an automatic rebalancing element in some of our optional living benefit features, which, as part of the overall product design, transferred approximately $8 billion of net investments out of the separate accounts and into our general account since January 1, 2008, due to equity market declines. Higher average annuity account values invested in our general account resulting from these transfers also led to improved investment results, which partially offset the decrease in fee income.

The $280 million of benefits in the first nine months of 2009 relating to the quarterly market performance adjustments shown in the table above are attributable to updates to our estimate of total gross profits for better than expected actual fund performance in the first nine months of 2009, reflecting improved market conditions during the period. Included within the $38 million decrease in amortization of deferred policy acquisition and other costs for the first nine months of 2009 is a $73 million charge to amortize the remaining balance of valuation of business acquired, or VOBA, related to the variable annuity contracts acquired from Allstate. The additional charge was required in the first quarter of 2009, as the declines in estimated future gross profits related to market performance caused the present value of estimated gross profits for these contracts to fall below zero. Since the VOBA balance was completely amortized for these contracts, it cannot be reestablished for market value appreciation in subsequent periods. Excluding this Allstate block of business, market value appreciation in the first nine months of 2009 increased our estimates of total gross profits by establishing a new, higher starting point for the variable annuity account values used in estimating gross profits for future periods. The increase in our estimate of total gross profits results in a lower required rate of amortization and lower required reserve provisions, which are applied to all prior periods gross profits. The resulting cumulative adjustment to prior amortization and reserve provisions are recognized in the current period. The $280 million charge in the first nine months of 2008 is attributable to a similar but opposite impact on gross profits of market value decreases in the underlying assets associated with our variable annuity products, reflecting financial market conditions during the period. Results for the first nine months of 2009 and 2008 also include charges of $49 million and $100 million, respectively, related to the annual reviews discussed above.

The quarterly adjustments for current period experience shown in the table above reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. The adjustments for deferred policy acquisition and other costs in the first nine months of 2009 reflect a reduction in amortization due to better than expected gross profits, resulting primarily from the favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features and better than expected lapse

experience. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the first nine months of 2009 primarily reflects higher than expected fee income due to market increases, partially offset by higher than expected actual contract guarantee claims costs due to lower than expected lapses. Less favorable than expected gross profits in the first nine months of 2008 were primarily due to lower than expected fee income, the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, and higher actual contract guarantee claims costs in the first nine months of 2008, primarily driven by unfavorable financial market conditions.

The $895 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features referred to above reflects a benefit of $755 million in the first nine months of 2009 compared to a charge of $140 million in the first nine months of 2008. The benefit in the first nine months of 2009 includes $454 million of net benefits related to updates of the inputs used in the valuation of the embedded derivative liabilities, including a $564 million benefit related to an update to reflect a market-perceived increase in our own risk of non-performance. The remaining $110 million of net charges was primarily driven by a reduction in the expected lapse rate assumption based on our actual lapse experience, partially offset by the inclusion of new market inputs for implied volatility as well as updated assumptions for other actuarial and capital markets inputs. In light of recent developments, including rating agency downgrades to the claims-paying ratings of our insurance subsidiaries, beginning in the first quarter of 2009, we incorporated an additional spread over LIBOR into the discount rate used in the valuation of the embedded derivative liabilities to reflect an increase in our market perceived non-performance risk, thereby reducing the value of the embedded derivative liabilities. The $140 million charge in the first nine months of 2008 included a $66 million benefit related to an update of the assumptions used in the valuation of the embedded derivatives, primarily driven by an update of the equity volatility assumption to better match the actual equity indices referenced. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

Excluding the $454 million of net benefits related to updates of the inputs used in the valuation of the embedded derivatives associated with our living benefit features, the hedging activities resulted in a $301 million benefit in the first nine months of 2009, reflecting a $2,062 million benefit related to the change in the fair value of the embedded derivatives, partially offset by a $1,761 million charge related to the change in the fair value of the related hedge positions. The hedging activities in the first nine months of 2008, excluding similar assumption updates, resulted in a $206 million charge, reflecting a $610 million charge related to the change in the fair value of the embedded derivatives, partially offset by a $404 million charge related to the change in the fair value of the related hedge positions. Variances for both periods are primarily driven by differences in the actual performance of the underlying separate account funds relative to the performance of the market indices we utilize as a basis for developing our hedging strategy.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $104 million, from $528 million in the third quarter of 2008 to $424 million in the third quarter of 2009. Policy charges and fees and asset management fees and other income decreased $150 million, including $140 million of mark-to-market losses related to derivative positions associated with our capital hedging program, as discussed above. In addition, fee income declined, driven by lower average variable annuity asset balances invested in separate accounts due to net market depreciation between the third quarter of 2008 and the third quarter of 2009, and the transfer of balances to our general account relating to an automatic rebalancing element in some of our optional living benefit features. Partially offsetting these items, was a $36 million increase in net investment income, reflecting higher average annuity account values invested in our general account, also resulting from these transfers.

2009 to 2008 Nine Month Comparison. Revenues increased $708 million, from $1,723 million in the first nine months of 2008 to $2,431 million in the first nine months of 2009. Policy charges and fees and asset management fees and other income increased $471 million, including a $895 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, primarily driven by a market-perceived increase in our own risk of non-performance, as discussed above. This favorable variance was partially offset by $142 million of mark-to-market losses related to derivative positions associated with our capital hedging program, as discussed above, as well as a decrease in fee income driven by lower average variable annuity asset balances invested in separate accounts. The decline in average asset balances was due to net market depreciation and the transfer of balances to our general account relating to an automatic rebalancing element in some of our optional living benefit features. In addition, net investment income increased $226 million, reflecting higher average annuity account values invested in our general account, also resulting from these transfers.

Benefits and Expenses

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $577 million, from $835 million in the third quarter of 2008 to $258 million in the third quarter of 2009. Absent the net impact related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs discussed above, which accounts for a decrease in benefits and expenses of $629 million, benefits and expenses increased $52 million. On this basis, policyholders benefits, including changes in reserves, increased $37 million primarily reflecting higher actual and expected contract guarantee claims costs related to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Also on this basis, interest credited to policyholders account balances and general and administrative expenses, net of capitalization, each increased $12 million. The increase in interest credited to policyholders account balances primarily reflects higher average annuity account values invested in our general account resulting from transfers relating to an automatic rebalancing element in some of our living benefit features. The increase in general and administrative expenses, net of capitalization, on this basis, was primarily driven by higher distribution costs, reflecting higher variable annuity sales. Partially offsetting these increases was a $13 million decrease in interest expense, primarily driven by paydowns of inter-company debt, which were funded with affiliated capital contributions.

2009 to 2008 Nine Month Comparison. Benefits and expenses increased $55 million, from $1,761 million in the first nine months of 2008 to $1,816 million in the first nine months of 2009. Absent the net $727 million impact related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs and the $641 million increase in the amortization of deferred policy acquisition and other costs due to the favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features discussed above, which account for a decrease in benefits and expenses of $86 million, benefits and expenses increased $141 million. On this basis, interest credited to policyholders account balances increased $132 million primarily reflecting higher average annuity account values invested in our general account, resulting from transfers relating to an automatic rebalancing element in some of our living benefit features. Also on this basis, policyholders benefits, including changes in reserves, increased $97 million primarily reflecting higher actual and expected contract guarantee claims costs related to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. The amortization of deferred policy acquisition costs increased $25 million on this basis, reflecting the higher rate of amortization applied to gross profits in calculating amortization for the first nine months of 2009, due to the negative market performance adjustments recognized during 2008. Partially offsetting these increases was a $78 million decrease in general and administrative expenses, net of capitalization, absent the effect of the items mentioned above, and a $35 million decrease in interest expense. The decrease in general and administrative expenses, net of capitalization, on this basis, was driven by declines in distribution and asset management costs associated with lower variable annuity account values, and lower amortization of VOBA subsequent to the

complete write-off in the first quarter of 2009 of balances related to the variable annuity contracts acquired from Allstate, as discussed above. The decrease in interest expense reflects paydowns of inter-company debt, which were funded with affiliated capital contributions.

Account Values

The following table sets forth changes in account values for the individual annuity business, for the periods indicated. For our individual annuity business, assets are reported at account value, and net sales (redemptions) are gross sales minus redemptions or surrenders and withdrawals, as applicable.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Variable Annuities(1):				
Beginning total account value	$ 65,099	$ 74,707	$ 60,007	$ 80,330
Sales	5,829	2,507	11,315	8,076
Surrenders and withdrawals	(1,444)	(1,988)	(4,202)	(6,346)
Net sales	4,385	519	7,113	1,730
Benefit payments	(239)	(259)	(731)	(815)
Net flows	4,146	260	6,382	915
Change in market value, interest credited and other activity	6,650	(6,712)	9,947	(12,367)
Policy charges	(284)	(287)	(725)	(910)
Ending total account value(2)	$ 75,611	$ 67,968	$ 75,611	$ 67,968
Fixed Annuities:				
Beginning total account value	$ 3,221	$ 3,394	$ 3,295	$ 3,488
Sales	46	33	142	74
Surrenders and withdrawals	(49)	(71)	(201)	(185)
Net redemptions	(3)	(38)	(59)	(111)
Benefit payments	(41)	(37)	(121)	(120)
Net flows	(44)	(75)	(180)	(231)
Interest credited and other activity	36	32	99	95
Policy charges		(2)	(1)	(3)
Ending total account value	$ 3,213	$ 3,349	$ 3,213	$ 3,349

(1) Variable annuities include only those sold as retail investment products. Investments through defined contribution plan products are included with such products within the Retirement segment.
(2) As of September 30, 2009, variable annuity account values are invested in equity funds ($26 billion or 34%), balanced funds ($24 billion or 32%), market value adjusted or fixed rate options ($12 billion or 16%), bond funds ($9 billion or 12%) and other ($5 billion or 6%).

2009 to 2008 Three Month Comparison. Total account values for fixed and variable annuities amounted to $78.8 billion as of September 30, 2009, an increase of $10.5 billion from June 30, 2009. The increase came primarily from increases in the market value of customers variable annuities due to equity market appreciation and positive variable annuity net flows. Total account values as of September 30, 2009 increased $7.5 billion from September 30, 2008, primarily due to positive variable annuity net flows and, to a lesser extent, increases in the market value of customers variable annuities due to equity market appreciation. Individual variable annuity gross sales increased by $3.3 billion, from $2.5 billion in the third quarter of 2008 to $5.8 billion in the third quarter of 2009. The increase reflects a benefit from the impact of market disruptions on some of our competitors, certain of which implemented product modifications to increase pricing and scale back product features in the second and third quarters of 2009. We also experienced increased sales in the third quarter of 2009

related to certain optional living benefit features which we previously announced would be discontinued during the third quarter of 2009. We believe our modified product offering will remain competitively positioned relative to our competitors going forward and provides us an attractive risk and profitability profile, as all future optional living benefit features include the automatic rebalancing element described below. Individual variable annuity surrenders and withdrawals decreased by $544 million, from $2.0 billion in the third quarter of 2008 to $1.4 billion in the third quarter of 2009, reflecting lower lapses for policies where the current policyholder account value is below the guaranteed minimum death or living benefit value.

2009 to 2008 Nine Month Comparison. Total account values for fixed and variable annuities amounted to $78.8 billion as of September 30, 2009, an increase of $15.5 billion from December 31, 2008. The increase came primarily from increases in the market value of customers variable annuities due to equity market appreciation and from positive variable annuity net flows. Total account values as of September 30, 2009 increased $7.5 billion from September 30, 2008, primarily due to positive variable annuity net flows and, to a lesser extent, increases in the market value of customers variable annuities due to equity market appreciation. Individual variable annuity gross sales increased by $3.2 million, from $8.1 billion in the first nine months of 2008 to $11.3 billion in the first nine months of 2009, reflecting strong sales of our optional living benefit product features as discussed above. Individual variable annuity surrenders and withdrawals decreased by $2.1 billion, from $6.3 billion in the first nine months of 2008 to $4.2 billion in the first nine months of 2009, reflecting the overall impact of lower account values due to market depreciation and lower lapses for policies where the current policyholder account value is below the guaranteed minimum death or living benefit value.

Variable Annuity Net Amount at Risk

As a result of the volatility and disruption in the global financial markets, in recent periods we have seen significant increases in the net amount at risk embedded in our variable annuity products with riders that include optional living and guaranteed minimum death benefit features. The net amount at risk is generally defined as the present value of the guaranteed minimum benefit amount in excess of the contractholder s current account balance. Variable annuity account values with living benefit features were $47.5 billion, $33.1 billion and $35.2 billion as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively. The following table sets forth the account value and net amount at risk of our variable annuities with living benefit features split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

	September 30, 2009		**December 31, 2008**		**September 30, 2008**	
	Account Value	**Net Amount at Risk**	**Account Value**	**Net Amount at Risk**	**Account Value**	**Net Amount at Risk**
			(in millions)			
Automatic rebalancing element(1)	$ 30,116	$ 1,129	$ 17,653	$ 1,328	$ 16,445	$ 1,142
No automatic rebalancing element	17,356	2,895	15,401	4,973	18,724	2,545
Total variable annuity account values with living benefit features	$ 47,472	$ 4,024	$ 33,054	$ 6,301	$ 35,169	$ 3,687

(1) As of September 30, 2009, December 31, 2008, and September 30, 2008, asset values that have rebalanced to fixed income investments due to the automatic rebalancing element represent 30% or $9.1 billion of the $30.1 billion total account value, 78% or $13.8 billion of the $17.7 billion total account value, and 70% or $11.4 billion of the $16.4 billion total account value, respectively.

The automatic rebalancing element, included in the design of certain optional living benefit features associated with our variable annuity products, transfers assets between contractholder sub-accounts depending on a number of factors, including the investment performance of the sub-accounts. Negative investment performance may result in transfers to either a fixed general account option or a separate account bond portfolio, depending on the benefit feature. In certain situations, assets may transfer back when investment performance improves. The

automatic rebalancing element is designed to help limit our exposure to equity market risk and market volatility. Our latest offerings of optional living benefit features associated with variable annuity products

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all include an automatic rebalancing element, and we have discontinued the sale of optional living benefit features without an automatic rebalancing element. As of September 30, 2009 approximately 63% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 53% and 47% as of December 31, 2008 and September 30, 2008, respectively. As of September 30, 2009 approximately 28% of the net amount at risk associated with variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 21% and 31% as of December 31, 2008 and September 30, 2008, respectively.

Our guaranteed minimum death benefits guarantee a minimum return on the contract value or an enhanced value, if applicable, to be used solely for purposes of determining benefits payable in the event of death. All of the $47.5 billion, $33.1 billion and $35.2 billion of variable annuity account values with living benefit features as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively, also contain guaranteed minimum death benefits. An additional $24.3 billion, $23.3 billion and $28.6 billion of variable annuity account values, respectively, contain guaranteed minimum death benefits, but no living benefit features. The following table sets forth the account value and net amount at risk of our variable annuities with guaranteed minimum death benefits split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

	September 30, 2009		December 31, 2008		September 30, 2008	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element	$ 30,116	$ 863	$ 17,653	$ 1,698	$ 16,445	$ 1,451
No automatic rebalancing	41,645	8,828	38,733	14,404	47,309	8,552
Total variable annuity account values with guaranteed minimum death benefits	$ 71,761	$ 9,691	$ 56,386	$ 16,102	$ 63,754	$ 10,003

As of September 30, 2009 approximately 42% of variable annuity account values with guaranteed minimum death benefits included an automatic rebalancing element in the product design, compared to 31% and 26% as of December 31, 2008 and September 30, 2008, respectively. As of September 30, 2009 approximately 9% of the net amount at risk associated with variable annuity account values with guaranteed minimum death benefits included an automatic rebalancing element in the product design, compared to 11% and 15% as of December 31, 2008 and September 30, 2008, respectively.

In addition to our automatic rebalancing element, we also manage the risks associated with our variable annuity products through our hedging program. Under this program we purchase equity options and futures as well as interest rate derivatives to hedge certain guarantees for changes in equity markets, interest rates, and market volatility. In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges primarily consist of equity options which are designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. We will continue to assess the composition of the hedging program over the next several quarters. The results of our hedging programs are discussed above.

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Retirement

Operating Results

The following table sets forth the Retirement segment s operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues	$ 1,101	$ 1,118	$ 3,539	$ 3,592
Benefits and expenses	982	985	3,162	3,194
Adjusted operating income	119	133	377	398
Realized investment gains (losses), net, and related adjustments(1)	35	(242)	(684)	(677)
Related charges(2)	2	6	8	2
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	677	(410)	1,449	(683)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(441)	264	(774)	446
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 392	$ (249)	$ 376	$ (514)

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on change in reserves and the amortization of deferred policy acquisition costs.
(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes.
(4) Benefits and expenses exclude changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes.

On October 10, 2008, we acquired MullinTBG Insurance Agency Services, LLC and related entities, or MullinTBG, a provider of executive benefit solutions and financing strategies, including nonqualified executive deferred compensation plans. The acquisition included $8.9 billion of nonqualified full service retirement account values that we administer, which are not reported on our balance sheet.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income for the Retirement segment decreased $14 million, from $133 million in the third quarter of 2008 to $119 million in the third quarter of 2009. Results for both periods include the impact of an annual review of the assumptions used in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired, as well as the impact of our quarterly adjustment to total gross profits for current period experience. Adjusted operating income for the

third quarter of 2009 and 2008 included charges of $3 million and $21 million, respectively, from the annual reviews. The charge in the third quarter of 2008 primarily reflected a decrease in our estimate of future gross profits, including a decline in our asset-based profit assumptions and an increase in our expense assumptions. The quarterly adjustment for current period experience resulted in a $5 million charge in the third quarter of 2009 and a $4 million benefit in the third quarter of 2008, reflecting the cumulative impact on amortization of differences between actual gross profits for the period and the previously estimated expected gross profits for the period. In addition, the third quarter of 2008 included a $29 million benefit from a reduction

in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits. Together, these items resulted in a net charge of $8 million in the third quarter of 2009 and a net benefit of $12 million in the third quarter of 2008.

Excluding the items discussed above, adjusted operating income increased $6 million compared to the third quarter of 2008, reflecting higher adjusted operating income in our institutional investment products business, and relatively unchanged results in our full service business. The increase in our institutional investment products business was driven by improved investment results, primarily due to increased net settlements on interest rate swaps, which resulted from a higher notional amount of swaps used to manage the duration of the investment portfolio and the favorable impact on those swaps of lower interest rates. Partially offsetting this increase was a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods. Such accretion did not contribute to results for the third quarter of 2009 due to our adoption of new authoritative guidance related to fixed maturity other-than-temporary impairments on January 1, 2009. In our full service business, improved investment results were largely offset by lower asset based fees. The increase in investment results was driven by higher average invested assets in our general account reflecting full service participant transfers from our equity based separate account products to our general account stable value products, as well as higher net yields due to the impact of lower crediting rates on general account liabilities, resulting from rate resets. Substantially all of our stable value general account products are either fully or partially participating, and we have the ability to reset crediting rates annually or semi-annually giving effect to previous investment experience. Average full service fee-based retirement account values for the third quarter of 2009 were relatively unchanged compared to the third quarter of 2008. However, recent large plan sales, which in some instances provide for more limited product offerings than existing business, partially offset the impact of market value declines on existing higher margin account values, driving the decline in asset based fees.

2009 to 2008 Nine Month Comparison. Adjusted operating income for the Retirement segment decreased $21 million, from $398 million in the first nine months of 2008 to $377 million in the first nine months of 2009. Results for both periods include the impact of an annual review of the assumptions used in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience. Adjusted operating income for the first nine months of 2009 included a $3 million charge from the annual review, compared to a $21 million charge in the first nine months of 2008, as discussed above. The quarterly updates for actual experience resulted in $5 million of charges in the first nine months of 2009 and $13 million of benefits in the first nine months of 2008, reflecting the cumulative impact on amortization of differences between actual gross profits for the period and the previously estimated expected gross profits for the period. In addition, the first nine months of 2008 included a $29 million benefit from a reduction in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits. Together, these items resulted in a net charge of $8 million in the first nine months of 2009 and a net benefit of $21 million in the first nine months of 2008.

Excluding the items discussed above, adjusted operating income increased $8 million compared to the first nine months of 2008, reflecting higher results in our institutional investment products business, partially offset by a decrease in adjusted operating income for our full service business. The increase in our institutional investment products business was driven by improved investment results and a favorable variance in the mark-to-market of equity investments required in certain of our separate account products. The increase in investment results was primarily due to increased net settlements on interest rate swaps used to manage the duration of the investment portfolio, as discussed above, and the impact of the scheduled maturity of a single large guaranteed investment contract which had an interest crediting rate in excess of our general account invested asset yield. Partially offsetting these increases was a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods. Such accretion did not contribute to results for the first nine months of 2009 due to our adoption of new authoritative guidance related to fixed maturity other-than-temporary impairments on January 1, 2009. Also serving as a partial offset were lower yields, including the

impact of a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes. Higher levels of short-term liquidity have been maintained in 2009 to provide additional capacity to address changing cash needs during the current market conditions. The decline in our full service business was primarily driven by lower asset based fees, due to a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Recent large plan sales, which in some instances provide for more limited product offerings than existing business, partially offset the impact of market value declines on existing higher margin account values. Serving as a partial offset to the decline in our full service business was an increase in investment results, driven by higher average invested assets in our general account reflecting full service participant transfers from our equity based separate account products to our general account stable value products, as well as higher net yields due to the impact of lower crediting rates on general account liabilities, resulting from rate resets.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $17 million, from $1,118 million in the third quarter of 2008 to $1,101 million in the third quarter of 2009. Net investment income decreased $68 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods, as discussed above. Also contributing to the decline in net investment income was the impact of a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes, as discussed above. A larger base of invested assets in our full service business, primarily driven by participant transfers from our equity based separate account products to our general account stable value products served as a partial offset to the decline in net investment income. Partially offsetting the decrease in net investment income was a $33 million increase in premiums, driven by higher life-contingent structured settlement sales, and resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. Also serving as a partial offset, policy charges and fee income and asset management fees and other income increased $18 million, primarily relating to increased net settlements on interest rate swaps used to manage the duration of the investment portfolio, as discussed above, and $12 million of revenues in the third quarter of 2009 associated with the acquired operations of MullinTBG. Partially offsetting these increases in policy charges and fee income and asset management fees and other income was a decline in asset based fees in our full service business driven by the impact of equity market depreciation, partially offset by recent large plan sales, as discussed above.

2009 to 2008 Nine Month Comparison. Revenues decreased $53 million, from $3,592 million in the first nine months of 2008 to $3,539 million in the first nine months of 2009. Net investment income decreased $154 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods, as discussed above. Also contributing to the decline in net investment income was the impact of a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes, as discussed above. Partially offsetting these declines were increases in net investment income from a larger base of invested assets in our full service business, primarily driven by participant transfers from our equity based separate account products to our general account stable value products, and a favorable variance in the mark-to-market of equity investments required in certain of our separate account products. Partially offsetting the decline in net investment income was a $98 million increase in premiums, driven by higher life-contingent structured settlement sales, partially offset by lower single premium group annuity sales, which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. In addition, policy charges and fee income and asset management fees and other income increased $3 million, primarily relating to $32 million of revenues in the first nine months of 2009 associated with the acquired operations of MullinTBG and a $15 million favorable variance in the mark-to-market of embedded derivatives and derivative hedge positions related to the guaranteed minimum withdrawal benefits associated with certain defined contribution accounts. Also contributing to the increase was

higher net settlements on interest rate swaps used to manage the duration of the investment portfolio, as discussed above. Partially offsetting these increases in policy charges and fee income and asset management fees and other income was a decline in asset based fees in our full service business driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation, as well as full service participant transfers from our equity based separate account products to our general account stable value products, partially offset by recent large plan sales, as discussed above.

Benefits and Expenses

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $3 million, from $985 million in the third quarter of 2008 to $982 million in the third quarter of 2009. Absent the impact of the annual reviews and other adjustments to the amortization of deferred policy acquisition costs and valuation of business acquired discussed above, which account for a $20 million increase, benefits and expenses decreased $23 million. Interest credited to policyholders account balances decreased $70 million, primarily reflecting lower crediting rates on floating rate guaranteed investment products and lower crediting rates on full service stable value product liabilities due to rate resets and the impact of the scheduled maturity of a single large guaranteed investment contract, partially offset by the impact of higher full service general account stable value product account values from participant transfers from equity based separate account products. In addition, interest expense decreased $13 million, reflecting lower interest rates on lower borrowings used to support investments. Partially offsetting these items, policyholders benefits, including the change in policy reserves, increased $46 million, primarily reflecting the increase in premiums discussed above, as well as a decreased benefit from reserve releases, including reserve refinements primarily reflecting updates of client census data and less favorable case experience related to our group annuity blocks of business. Also serving as a partial offset, general and administrative expenses, net of capitalization, increased $16 million excluding the items mentioned above, driven by $11 million of costs related to the acquired operations of MullinTBG.

2009 to 2008 Nine Month Comparison. Benefits and expenses decreased $32 million, from $3,194 million in the first nine months of 2008 to $3,162 million in the first nine months of 2009. Absent the impact of the annual reviews and other adjustments to the amortization of deferred policy acquisition costs and valuation of business acquired discussed above, which account for a $29 million increase, benefits and expenses decreased $61 million. Interest credited to policyholders account balances decreased $154 million, primarily reflecting lower crediting rates on floating rate guaranteed investment products and lower crediting rates on full service stable value product liabilities due to rate resets, and the impact of the scheduled maturity of a single large guaranteed investment contract, partially offset by the impact of higher full service general account stable value product account values from participant transfers from equity based separate account products. In addition, interest expense decreased $44 million, reflecting lower interest rates on lower borrowings used to support investments. Partially offsetting these decreases, policyholders benefits, including the change in policy reserves, increased $88 million, primarily reflecting the increase in premiums discussed above, partially offset by lower interest on lower general account policy reserves. General and administrative expenses, net of capitalization, increased $51 million excluding the items mentioned above, driven by $37 million of costs related to the acquired operations of MullinTBG, as well as expenses incurred to support several large client sales, partially offset by the absence of the costs of an interim service agreement relating to the retirement business acquired from Union Bank of California, N.A., which were included in the first nine months of 2008.

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Sales Results and Account Values

The following table shows the changes in the account values and net additions (withdrawals) of Retirement segment products for the periods indicated. Net additions (withdrawals) are deposits and sales or additions, as applicable, minus withdrawals and benefits. These concepts do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Full Service(1):				
Beginning total account value	$ 110,950	$ 106,917	$ 99,738	$ 112,192
Deposits and sales	4,789	3,276	19,168	12,392
Withdrawals and benefits	(3,287)			