PRUDENTIAL FINANCIAL INC
Form 10-Q
August 07, 2009

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 June 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 **(State or Other Jurisdiction of Incorporation or Organization)**	**22-3703799** **(I.R.S. Employer 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 July 31, 2009, 461 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 ongoing 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 this Quarterly Report on Form 10-Q for discussion of certain risks relating to our businesses and investment in our securities.

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

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

	June 30, 2009	December 31, 2008
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2009 $166,075; 2008 $168,691)	$ 158,913	$ 158,056
Fixed maturities, held to maturity, at amortized cost (fair value: 2009 $4,938; 2008 $3,832)	4,935	3,808
Trading account assets supporting insurance liabilities, at fair value	14,766	13,875
Other trading account assets, at fair value	3,715	4,336
Equity securities, available for sale, at fair value (cost: 2009 $6,019; 2008 $7,288)	5,917	6,065
Commercial mortgage and other loans (includes $508 measured at fair value at June 30, 2009)	32,694	33,114
Policy loans	9,856	9,703
Securities purchased under agreements to resell		480
Other long-term investments	5,716	7,012
Short-term investments	7,137	5,576
Total investments	243,649	242,025
Cash and cash equivalents	13,491	15,028
Accrued investment income	2,231	2,266
Deferred policy acquisition costs	14,474	15,126
Deferred income taxes, net		1,106
Other assets	19,605	22,365
Separate account assets	151,266	147,095
TOTAL ASSETS	$ 444,716	$ 445,011
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 121,394	$ 121,951
Policyholders account balances	101,277	99,613
Policyholders dividends	1,667	1,670
Securities sold under agreements to repurchase	7,168	7,900
Cash collateral for loaned securities	3,662	4,168
Income taxes	777	459
Short-term debt	3,643	10,535
Long-term debt (includes $1,167 measured at fair value at June 30, 2009)	20,981	20,290
Other liabilities	14,206	17,544
Separate account liabilities	151,266	147,095
Total liabilities	426,041	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; 641,761,510 and 604,902,444 shares issued as of June 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 June 30, 2009 and December 31, 2008, respectively)		
Additional paid-in capital	23,325	22,001
Common Stock held in treasury, at cost (181,278,929 and 183,582,565 shares as of June 30, 2009 and December 31, 2008, respectively)	(11,494)	(11,655)
Accumulated other comprehensive loss	(5,002)	(7,343)
Retained earnings	11,238	10,426
Total Prudential Financial, Inc. equity	18,073	13,435
Noncontrolling interests	602	351
Total equity	18,675	13,786
TOTAL LIABILITIES AND EQUITY	$ 444,716	$ 445,011

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
REVENUES				
Premiums	$ 4,187	$ 3,927	$ 8,221	$ 7,885
Policy charges and fee income	713	824	1,439	1,649
Net investment income	2,835	3,026	5,690	6,052
Asset management fees and other income	1,446	824	2,245	1,485
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(1,312)	(661)	(3,167)	(1,200)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	813		2,063	
Other realized investment gains (losses), net	(1,776)	(237)	(1,026)	(610)
Total realized investment gains (losses), net	(2,275)	(898)	(2,130)	(1,810)
Total revenues	6,906	7,703	15,465	15,261
BENEFITS AND EXPENSES				
Policyholders benefits	3,886	4,011	8,227	8,046
Interest credited to policyholders account balances	1,099	745	2,268	1,382
Dividends to policyholders	277	158	276	717
General and administrative expenses	1,652	2,161	4,690	4,426
Total benefits and expenses	6,914	7,075	15,461	14,571
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(8)	628	4	690
Income tax expense (benefit)	(162)	60	(158)	83
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	154	568	162	607
Equity in earnings of operating joint ventures, net of taxes	5	24	(1)	67
INCOME FROM CONTINUING OPERATIONS	159	592	161	674
Income (loss) from discontinued operations, net of taxes	21	(3)	22	(1)
NET INCOME	180	589	183	673
Less: Income attributable to noncontrolling interests	17	8	6	32
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 163	$ 581	$ 177	$ 641
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic:				
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 1.21	$ 1.34	$ 1.23	$ 1.50
Income (loss) from discontinued operations, net of taxes	0.04	(0.01)	0.05	
Net income attributable to Prudential Financial, Inc. per share of Common Stock	$ 1.25	$ 1.33	$ 1.28	$ 1.50

Diluted:				
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 1.20	$ 1.33	$ 1.23	$ 1.49
Income (loss) from discontinued operations, net of taxes	0.05	(0.01)	0.05	
Net income attributable to Prudential Financial, Inc. per share of Common Stock	$ 1.25	$ 1.32	$ 1.28	$ 1.49
Closed Block Business				
Basic and Diluted:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	$ (193.00)	$ 0.50	$ (189.00)	$ (9.50)
Income from discontinued operations, net of taxes				
Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	$ (193.00)	$ 0.50	$ (189.00)	$ (9.50)

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statement of Equity

Six Months Ended June 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 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								278	278
Distributions to noncontrolling interests								(8)	(8)
Stock-based compensation programs			(67)	(29)	161		65		65
Impact of adoption of FSP FAS 115-2 and FAS 124-2, net of taxes				664		(664)			
Comprehensive income:									
Net income				177			177	6	183
Other comprehensive income (loss), net of tax						3,005	3,005	(25)	2,980
Total comprehensive income (loss)							3,182	(19)	3,163
Balance, June 30, 2009	$ 6	$	$ 23,325	$ 11,238	$ (11,494)	$ (5,002)	$ 18,073	$ 602	$ 18,675

	Prudential Financial, Inc. Equity								
	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive 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					(1,750)		(1,750)		(1,750)
Contributions from noncontrolling interests								5	5
Distributions to noncontrolling interests								(152)	(152)
Stock-based compensation programs				(13)	128		115		115
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				641			641	32	673
Other comprehensive loss, net of tax						(1,892)	(1,892)	(1)	(1,893)
Total comprehensive income (loss)							(1,251)	31	(1,220)
Balance, June 30, 2008	$ 6	$	$ 21,922	$ 12,440	$ (11,315)	$ (1,445)	$ 21,608	$ 293	$ 21,901

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Six Months Ended June 30, 2009 and 2008 (in millions)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 183	$ 673
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	2,130	1,810
Policy charges and fee income	(786)	(537)
Interest credited to policyholders account balances	2,268	1,382
Depreciation and amortization	192	208
(Gains) losses on trading account assets supporting insurance liabilities, net	(840)	375
Change in:		
Deferred policy acquisition costs	(133)	(513)
Future policy benefits and other insurance liabilities	(1,033)	1,751
Other trading account assets	1,977	302
Income taxes	(152)	(465)
Other, net	(47)	(1,364)
Cash flows from operating activities	3,759	3,622
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	25,410	46,923
Fixed maturities, held to maturity	168	111
Trading account assets supporting insurance liabilities and other trading account assets	14,969	11,952
Equity securities, available for sale	840	1,899
Commercial mortgage and other loans	1,628	1,162
Policy loans	844	716
Other long-term investments	672	525
Short-term investments	12,887	16,159
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(22,270)	(45,610)
Fixed maturities, held to maturity	(952)	(24)
Trading account assets supporting insurance liabilities and other trading account assets	(16,243)	(13,148)
Equity securities, available for sale	(326)	(2,151)
Commercial mortgage and other loans	(1,609)	(3,404)
Policy loans	(785)	(737)
Other long-term investments	(905)	(1,477)
Short-term investments	(14,295)	(17,807)
Other, net	158	(84)
Cash flows from (used in) investing activities	191	(4,995)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	15,513	16,995
Policyholders account withdrawals	(15,273)	(11,013)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(974)	(4,838)
Proceeds from the issuance of Common Stock	1,391	
Cash dividends paid on Common Stock	(37)	(83)
Net change in financing arrangements (maturities 90 days or less)	(3,386)	(1,244)
Common Stock acquired		(1,717)
Common Stock reissued for exercise of stock options	22	56
Proceeds from the issuance of debt (maturities longer than 90 days)	2,868	5,788
Repayments of debt (maturities longer than 90 days)	(5,494)	(3,444)
Excess tax benefits from share-based payment arrangements		15
Other, net	(64)	(276)

Cash flows from (used in) financing activities	(5,434)	239
Effect of foreign exchange rate changes on cash balances	(53)	17
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,537)	(1,117)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,028	11,060
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,491	$ 9,943
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	$ 97	$ 87

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. 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 August 7, 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

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 of the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 Accounting for Stock Based Compensation on January 1, 2003, and (b) the adoption on January 1, 2006 of SFAS No. 123(R) 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 SFAS No. 123(R), 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 six months ended June 30, 2008 would have been increased by $0.2 million and $1 million, respectively, with no reportable impact to the 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

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 FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. 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, 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, gains on commercial mortgage loans in connection with securitization transactions, and fair value changes on embedded derivatives and 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) issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. 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, FSP FAS 115-2 and FAS 124-2 requires that the Company analyze its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company may use the estimated fair value of collateral as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded.

Under FSP FAS 115-2 and FAS 124-2, 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 FSP FAS 115-2 and FAS 124-2, 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 June 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 second quarter of 2009. The carrying value of goodwill was $706 million as of June 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 pursuant to FASB Interpretation (FIN) No. 39 and FSP No. 39-1.

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

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income (loss), depending on whether the hedge transaction is a fair value hedge (e.g., a hedge of a recognized 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

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limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The statute of limitations for the 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 second quarter of 2009 benefited from a reduction to the liability for unrecognized tax benefits and interest of $147 million primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 tax year, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates. Also as discussed above, the statute of limitations for the 2003 tax year expired on July 31, 2009. As a result, the Company s income tax provision for the third quarter of 2009 will include a reduction to the liability for unrecognized tax benefits and interest of approximately $165 million related to tax years prior to 2002.

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 suspends Revenue Ruling 2007-54 and informs taxpayers that the U.S. Treasury Department and the IRS have indicated that they 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

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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 intends to file a protective refund claim within six months of the expiration of the respective statutes of limitations 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.

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 May 2009, the FASB issued SFAS No. 165, Subsequent Events. This statement 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 issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends the disclosure requirements. This FSP 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 issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP 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 FSP also requires that the required annual disclosures for debt and equity securities be made for interim reporting periods. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP 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 $664 million. The disclosures required by this FSP 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 issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP amends FASB Statement No. 157, Fair Value Measurements, 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, FSP 157-4 requires additional disclosures about fair value measurements in interim and annual periods and supersedes FSP FAS 157-3, Determining the Fair Value of a Financial Asset in a Market That Is Not Active. This FSP 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 FSP are provided in Note 12.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP 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 guidance in SFAS No. 5, Accounting for Contingencies. This FSP also amends disclosure requirements. This FSP 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 EITF Issue No. 08-5, 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 EITF Issue No. 07-5, 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 exempt from requirements of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and eligible for equity classification under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock. 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.

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In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP 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 described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. This FSP is effective for fiscal years and interim periods beginning after December 15, 2008, and must be applied retrospectively to all EPS data presented. The Company s adoption of this guidance effective January 1, 2009 reduced earnings per basic share of Common Stock for both the three and six months ended June 30, 2008 by $0.01 and had no reportable impact on earnings per diluted share of Common Stock for both the three and six months ended June 30, 2008. 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 issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). This FSP, 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 June 30, 2008 by $9 million or $0.02 per share of Common Stock, on both a basic and diluted basis and reduced net income for the six months ended June 30, 2008 by $18 million or $0.04 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 issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP 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 under SFAS No. 142. This FSP 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 SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133. This statement 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 under FASB Statement No. 133 and its related interpretations, 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.

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In February 2008, the FASB issued FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. The FSP 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 FSP 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.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FSP applies to 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). FSP FAS 157-2 delays the effective date of SFAS No. 157 for these items 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 SFAS No. 141R, Business Combinations. This statement, 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 standard 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 standard 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 SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 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, SFAS No. 160 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 $293 million at June 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 $8 million and $32 million for the three and six months ended June 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 June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. The FASB s Codification was launched on July 1, 2009 as the source of authoritative U.S. GAAP to be applied by

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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 statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This statement will become effective for the Company beginning with the interim reporting period ending September 30, 2009 and will impact the way the Company references U.S. GAAP accounting standards in the financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This statement amends the consolidation guidance for variable interest entities. It also makes certain changes to the disclosures required under FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities, which the Company adopted effective December 31, 2008. This statement 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 statement on the Company s consolidated financial position, results of operations and financial statement disclosures.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. This statement 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 Statement No. 140 and removes the exception from applying FASB Interpretation No. 46, Consolidation of Variable Interest Entities, to qualifying special-purpose entities. It 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 statement on the Company s consolidated financial position, results of operations and financial statement disclosures.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets , which amends the plan asset disclosures required under FAS 132(R). This FSP 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 measurement of plan assets similar to those required under SFAS No. 157. This FSP 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.

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 June 30, 2009, the Statement of Financial Position of Prudential Financial 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 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

$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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Real estate investments sold or held for sale	$ 26	$	$ 28	$ 1
Equity sales, trading and research operations	1	(1)	1	(2)
International securities operations	1	(3)	1	(2)
Mexican asset management operations	(1)		(1)	1
Income (loss) from discontinued operations before income taxes	27	(4)	29	(2)
Income tax expense (benefit)	6	(1)	7	(1)
Income (loss) from discontinued operations, net of taxes	$ 21	$ (3)	$ 22	$ (1)

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 $157 million and $93 million, respectively, as of June 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. It is possible that such adjustments might be material to future net results of operations of a particular quarterly or annual period.

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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:

	June 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary impairments in AOCI(3)
Fixed maturities, available for sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 6,260	$ 483	$ 180	$ 6,563	$
Obligations of U.S. states and their political subdivisions	714	36	2	748	
Foreign government bonds	34,772	1,135	160	35,747	
Corporate securities	86,436	2,120	5,707	82,849	(99)
Asset-backed securities(1)	14,516	117	4,125	10,508	(1,748)
Commercial mortgage-backed securities	11,355	44	1,148	10,251	19
Residential mortgage-backed securities(2)	12,022	410	185	12,247	(11)
Total fixed maturities, available for sale	$ 166,075	$ 4,345	$ 11,507	$ 158,913	$ (1,839)
Equity securities, available for sale	$ 6,019	$ 557	$ 659	$ 5,917	

(1) Includes credit tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which, from January 1, 2009, were not included in earnings under FSP FAS 115-2 and FAS 124-2. Amount excludes $113 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

	June 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary impairments in AOCI(3)
Fixed maturities, held to maturity					
Foreign government bonds	$ 1,022	$ 35	$ 1	$ 1,056	$
Corporate securities	835		123	712	

Asset-backed securities(1)	902	9	6	905	
Commercial mortgage-backed securities	446	64		510	
Residential mortgage-backed securities(2)	1,730	31	6	1,755	
Total fixed maturities, held to maturity	$ 4,935	$ 139	$ 136	$ 4,938	$

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

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

(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which, from January 1, 2009, were not included in earnings under FSP FAS 115-2 and FAS 124-2.

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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 June 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	$ 7,711	$ 7,702	$ 10	$ 10
Due after one year through five years	32,998	32,492		
Due after five years through ten years	32,516	31,169	22	22
Due after ten years	54,957	54,544	1,825	1,736
Asset-backed securities	14,516	10,508	902	905
Commercial mortgage-backed securities	11,355	10,251	446	510
Residential mortgage-backed securities	12,022	12,247	1,730	1,755

Total	$ 166,075	$ 158,913	$ 4,935	$ 4,938

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Fixed maturities, available for sale:				
Proceeds from sales	$ 8,000	$ 18,616	$ 16,643	$ 36,437
Proceeds from maturities/repayments	4,401	4,314	8,426	10,195
Gross investment gains from sales, prepayments and maturities	266	194	629	491
Gross investment losses from sales and maturities	(259)	(210)	(376)	(394)
Fixed maturities, held to maturity:				
Proceeds from maturities/repayments	$ 106	$ 62	$ 168	$ 111
Gross investment gains from prepayments				
Fixed maturity and equity security impairments:				
Total writedowns for other-than-temporary impairment losses on fixed maturities	$ (1,312)	$ (661)	$ (3,167)	$ (1,200)
Portion of loss recognized in other comprehensive income (before taxes)	813		2,063	
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings	$ (499)	$ (661)	$ (1,104)	$ (1,200)
Writedowns for other-than-temporary impairment losses on equity securities	$ (263)	$ (230)	$ (756)	$ (330)

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

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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

	Six Months Ended June 30, 2009 (in millions)
Balance, December 31, 2008	$
Credit losses remaining in retained earnings related to adoption of FSP FAS 115-2 and FAS 124-2	658
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(91)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(6)
Credit loss impairment recognized in the current period on securities not previously impaired	558
Additional credit loss impairments recognized in the current period on securities previously impaired	394
Increases due to the passage of time on previously recorded credit losses	16
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(7)
Balance, June 30, 2009	$ 1,522

(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.

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

	Three Months Ended June 30, 2009 (in millions)
Balance, March 31, 2009	$ 1,207
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(90)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(6)
Credit loss impairment recognized in the current period on securities not previously impaired	164
Additional credit loss impairments recognized in the current period on securities previously impaired	239
Increases due to the passage of time on previously recorded credit losses	14
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(6)
Balance, June 30, 2009	$ 1,522

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Trading Account Assets Supporting Insurance Liabilities

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

	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Short-term investments and cash equivalents	$ 553	$ 553	$ 1,232	$ 1,232
Fixed maturities:				
Corporate securities	8,870	8,612	8,814	7,971
Commercial mortgage-backed securities	2,235	2,132	2,335	2,092
Residential mortgage-backed securities	1,399	1,381	708	684
Asset-backed securities	930	692	915	635
Foreign government bonds	474	479	416	420
U.S. government authorities and agencies and obligations of U.S. states	121	114	147	143
Total fixed maturities	14,029	13,410	13,335	11,945
Equity securities	953	803	1,074	698
Total trading account assets supporting insurance liabilities	$ 15,535	$ 14,766	$ 15,641	$ 13,875

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 $752 million and $(80) million during the three months ended June 30, 2009 and 2008, respectively, and $997 million and $(336) million during the six months ended June 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:

	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Short-term investments and cash equivalents	$ 6	$ 6	$ 7	$ 7
Fixed maturities:				
Asset-backed securities	1,695	1,622	423	308

Residential mortgage-backed securities	260	118	278	150
Corporate securities	257	244	230	204
Commercial mortgage-backed securities	213	120	217	136
U.S. government authorities and agencies and obligations of U.S. states	56	59	102	106
Foreign government bonds	32	33	32	33
Total fixed maturities	2,513	2,196	1,282	937
Derivative instruments and other	1,196	1,410	2,949	3,250
Equity securities	99	103	144	142
Total other trading account assets	$ 3,814	$ 3,715	$ 4,382	$ 4,336

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 $(24) million and $236 million during the three months ended June 30, 2009 and 2008, respectively, and $(53) million and $(105) million during the six months ended June 30, 2009 and 2008, respectively.

Net Investment Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Fixed maturities, available for sale	$ 2,024	$ 2,104	$ 4,124	$ 4,219
Fixed maturities, held to maturity	37	22	68	45
Equity securities, available for sale	79	93	156	165
Trading account assets	196	198	393	402
Commercial mortgage and other loans	485	485	968	956
Policy loans	141	136	278	269
Broker-dealer related receivables	5	39	11	83
Short-term investments and cash equivalents	34	120	97	282
Other long-term investments	(52)	53	(158)	131
Gross investment income	2,949	3,250	5,937	6,552
Less: Investment expenses	(114)	(224)	(247)	(500)
Net investment income	$ 2,835	$ 3,026	$ 5,690	$ 6,052

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Realized Investment Gains (Losses), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Other-than-temporary impairment losses on fixed maturities	$ (1,312)	$ (661)	$ (3,167)	$ (1,200)
Portion of loss recognized in other comprehensive income (before taxes)	813		2,063	
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(499)	(661)	(1,104)	(1,200)
Fixed maturities all other	7	(16)	253	97
Fixed maturities, net	(492)	(677)	(851)	(1,103)
Equity securities	(318)	(210)	(819)	(359)
Commercial mortgage and other loans	(209)	(49)	(329)	(78)
Investment real estate	(7)		(21)	
Joint ventures and limited partnerships	(39)	(15)	(53)	(15)
Derivatives	(1,219)	46	(69)	(271)
Other	9	7	12	16
Realized investment gains (losses), net	$ (2,275)	$ (898)	$ (2,130)	$ (1,810)

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 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 FSP FAS 115-2 and FAS 124-2	(1,139)	9	1		388	(741)
Net investment gains (losses) on investments arising during the period	175				(63)	112
Reclassification adjustment for (gains) losses included in net income	725				(261)	464
Reclassification adjustment for OTTI losses excluded from net income(1)	(1,487)				535	(952)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and valuation of business acquired		234			(84)	150
Impact of net unrealized investment (gains) losses on future policy benefits			(23)		8	(15)
Impact of net unrealized investment (gains) losses on policyholders dividends						
Balance, June 30, 2009	$ (1,726)	$ 243	$ (22)	$	$ 523	$ (982)

(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.

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 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 FSP FAS 115-2 and FAS 124-2	(322)	15	4	418	(38)	77
Net investment gains (losses) on investments arising during the period	4,081				(1,320)	2,761
Reclassification adjustment for (gains) losses included in net income	971				(350)	621
Reclassification adjustment for OTTI losses excluded from net income(2)	1,487				(535)	952
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and valuation of business acquired		(880)			308	(572)
Impact of net unrealized investment (gains) losses on future policy benefits			202		(70)	132
Impact of net unrealized investment (gains) losses on policyholders dividends				(849)	298	(551)
Balance, June 30, 2009	$ (5,676)	$ 614	$ (178)	$	$ 1,925	$ (3,315)

(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:

	June 30, 2009	December 31, 2008
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ (1,726)	$
Fixed maturity securities, available for sale all other	(5,436)	(10,635)
Equity securities, available for sale	(102)	(1,223)

Derivatives designated as cash flow hedges(1)	(273)	(227)
Other investments(2)	135	192
Net unrealized gains (losses) on investments	$ (7,402)	$ (11,893)

(1) See Note 14 for more information on cash flow hedges.
(2) Includes $237 million of net unrealized losses on held to maturity securities that were transferred from available-for-sale.

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:

	June 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	$ 1,949	$ 175	$ 36	$ 5	$ 1,985	$ 180
Obligations of U.S. states and their political subdivisions	57	2	2		59	2
Foreign government bonds	7,317	124	338	37	7,655	161
Corporate securities	16,233	1,374	28,751	4,456	44,984	5,830
Commercial mortgage-backed securities	2,391	263	6,476	885	8,867	1,148
Asset-backed securities	2,982	2,103	5,156	2,028	8,138	4,131
Residential mortgage-backed securities	2,448	52	1,199	139	3,647	191
Total	$ 33,377	$ 4,093	$ 41,958	$ 7,550	$ 75,335	$ 11,643

(1) Includes $1,583 million of fair value and $136 million of gross unrealized losses at June 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 FSP FAS 115-2 and FAS 124-2.

	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 June 30, 2009 and December 31, 2008 are composed of $7,769 million and $12,863 million related to investment grade securities and $3,874 million and $3,752 million related to below investment grade securities, respectively. At June 30, 2009, $6,338 million of the gross unrealized losses represented declines in value of greater than 20%, $1,698 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 June 30, 2009, the $7,550 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, manufacturing and services sectors of the Company s corporate securities, and commercial mortgage-backed 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 June 30, 2009 or December 31, 2008. These conclusions are based on a detailed analysis of the underlying credit and cashflows on each security. The gross unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts. At June 30, 2009, the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security 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:

	June 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	$ 2,234	$ 502	$ 580	$ 157	$ 2,814	$ 659

	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 June 30, 2009, $450 million of the gross unrealized losses represented declines of greater than 20%, $139 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 $580 million and $263 million and gross unrealized losses of $157 million and $63 million that have been in a continuous unrealized loss position for twelve months or more as of June 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 June 30, 2009 or

December 31, 2008.

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), in accordance with FIN No. 46(R), Consolidation of Variable Interest Entities. 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. These VIEs are consolidated and reflected in the table below. 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.

	June 30, 2009	December 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 26	$ 29
Commercial mortgages and other loans	424	450
Other long-term investments	11	100
Cash and cash equivalents	33	1
Accrued investment income	2	2
Other assets	4	5

Separate account assets	72	91
Total assets of consolidated VIEs	$ 572	$ 678
Other liabilities	$ 413	$ 424
Separate account liabilities	72	91
Total liabilities of consolidated VIEs	$ 485	$ 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 $401 million and $674 million at June 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 June 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 $6,556 million and $5,916 million as of June 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 June 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.

	June 30, 2009	December 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 103	$ 124
Fixed maturities, held to maturity	951	1,012
Other trading account assets		404
Other long-term investments	6	43
Cash and cash equivalents	2	79
Accrued investment income	4	8
Other assets		55
Total assets of consolidated VIEs	$ 1,066	$ 1,725
Total liabilities of consolidated VIEs	$ 19	$ 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. 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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 $6,678 million and $7,130 million at June 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 June 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 $1,079 million and $1,095 million at June 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 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments effective January 1, 2009. See Note 2 for more information on the adoption of FSP FAS 115-2 and FAS 124-2. As of June 30, 2009, actual cumulative earnings fell below the expected cumulative earnings by $622 million, thereby eliminating the cumulative earnings policyholder dividend obligation. Furthermore, due to the accumulation of net unrealized investment losses that have arisen subsequent to the establishment of the Closed Block, the policyholder dividend obligation balance as of December 31, 2008 was reduced to zero through Accumulated other comprehensive income (loss) and remains at zero as of June 30, 2009. See the table below for changes in the components of the policyholder dividend obligation for the six months ended June 30, 2009.

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:

	June 30, 2009	December 31, 2008
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 51,720	$ 51,763
Policyholders dividends payable	1,039	1,036
Policyholder dividend obligation		
Policyholders account balances	5,597	5,622
Other Closed Block liabilities	5,795	5,724
Total Closed Block Liabilities	64,151	64,145
Closed Block Assets		
Fixed maturities, available for sale, at fair value	35,984	35,345
Other trading account assets, at fair value	163	120
Equity securities, available for sale, at fair value	2,468	2,354
Commercial mortgage and other loans	8,087	8,129
Policy loans	5,443	5,423
Other long-term investments	1,584	1,676
Short-term investments	1,234	1,340
Total investments	54,963	54,387
Cash and cash equivalents	1,596	1,779
Accrued investment income	612	615
Other Closed Block assets	428	409
Total Closed Block Assets	57,599	57,190
Excess of reported Closed Block Liabilities over Closed Block Assets	6,552	6,955
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	(2,911)	(4,371)
Allocated to policyholder dividend obligation		433
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 3,641	$ 3,017

Information regarding the policyholder dividend obligation is as follows:

	Six Months Ended June 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, June 30, 2009	$	

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Revenues				
Premiums	$ 867	$ 965	$ 1,640	$ 1,821
Net investment income	710	800	1,428	1,641
Realized investment gains (losses), net	(820)	(349)	(1,228)	(444)
Other income	37	8	52	27
Total Closed Block revenues	794	1,424	1,892	3,045
Benefits and Expenses				
Policyholders benefits	992	1,093	1,904	2,065
Interest credited to policyholders account balances	35	35	70	70
Dividends to policyholders	253	155	256	657
General and administrative expenses	143	160	288	332
Total Closed Block benefits and expenses	1,423	1,443	2,518	3,124
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	(629)	(19)	(626)	(79)
Income tax expense (benefit)	(7)	(9)	(2)	(61)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	(622)	(10)	(624)	(18)
Income from discontinued operations, net of taxes				
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ (622)	$ (10)	$ (624)	$ (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)		(2.3)	2.3	
Balance, June 30, 2009	641.8	181.3	460.5	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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Net income	$ 180	$ 589	$ 183	$ 673
Other comprehensive income (loss), net of taxes:				
Change in foreign currency translation adjustments	188	9	(140)	260
Change in net unrealized investment gains (losses)(1)	3,369	(926)	3,102	(2,164)
Change in pension and postretirement unrecognized net periodic benefit	9	12	18	11
Other comprehensive income (loss)(2)	3,566	(905)	2,980	(1,893)
Comprehensive income (loss)	3,746	(316)	3,163	(1,220)
Comprehensive (income) loss attributable to noncontrolling interests	(32)	(9)	19	(31)
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ 3,714	$ (325)	$ 3,182	$ (1,251)

(1) Includes cash flow hedges of $(55) million and $23 million for the three months ended June 30, 2009 and 2008, respectively and $(30) million and $(53) million for the six months ended June 30, 2009 and 2008, respectively.
(2) Amounts are net of tax expense (benefit) of $1,719 million and $(625) million for the three months ended June 30, 2009 and 2008, respectively and $1,492 million and $(1,156) million for the six months ended June 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 six months ended June 30, 2009 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	(115)	3,102	18	3,005
Impact of adoption of FSP FAS 115-2 and FAS 124-2(2)		(664)		(664)

Balance, June 30, 2009	$ 260	$ (4,297)	$ (965)	$ (5,002)

(1) Includes cash flow hedges of $(177) million and $(147) million as of June 30, 2009 and December 31, 2008, respectively.
(2) See Note 2 for additional information on the adoption of FSP FAS 115-2 and FAS 124-2.

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

Common Stock

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

	Three Months Ended June 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	$ 534			$ 577		
Direct equity adjustment	11			14		
Less: Income attributable to noncontrolling interests	17			8		
Less: Earnings allocated to participating unvested share-based payment awards	6			4		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 522	432.9	$ 1.21	$ 579	431.9	$ 1.34
Add: Earnings allocated to participating unvested share-based payment awards Basic	$ 6			$ 4		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	6			4		
Effect of dilutive securities and compensation programs						
Stock options		1.1			3.6	
Deferred and long-term compensation programs		0.3			1.0	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 522	434.3	$ 1.20	$ 579	436.5	$ 1.33

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 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	$ 517			$ 667		
Direct equity adjustment	22			26		
Less: Income attributable to noncontrolling interests	6			32		
Less: Earnings allocated to participating unvested share-based payment awards	6			4		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 527	427.5	$ 1.23	$ 657	437.0	$ 1.50
Add: Earnings allocated to participating unvested share-based payment awards Basic	$ 6			$ 4		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	6			4		
Effect of dilutive securities and compensation programs						
Stock options		0.6			3.7	
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	$ 527	428.7	$ 1.23	$ 657	441.6	$ 1.49

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 June 30, 2009 and 2008 was based on 5.3 million and 2.6 million of such awards, respectively, weighted for the period they were outstanding. Earnings allocated to participating unvested share-based payment awards for the six months ended June 30, 2009 and 2008 was based on 4.7 million and 2.7 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 June 30, 2009 and 2008, 12.8 million and 7.0 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $67.15 and $79.62 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. For the six months ended June 30, 2009 and 2008, 16.0 million and 5.6 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $59.67 and $81.03 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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 June 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 June 30, 2009, $83 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 $(193.00) and $0.50 for the three months ended June 30, 2009 and 2008, respectively, and $(189.00) and $(9.50) for the six months ended June 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 June 30, 2009 and 2008 amounted to $(386) million and $1 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 $11 million and $14 million for the three months ended June 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 six months ended June 30, 2009 and 2008 amounted to $(378) million and $(19) 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 $22 million and $26 million for the six months ended June 30, 2009 and 2008, respectively. For the three and six months ended June 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.

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 June 30, 2009. Prudential Financial s outstanding commercial paper borrowings were $505 million and $1,243 million as of June 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-1 by Moody s and F1 by Fitch as of June 30, 2009. Prudential Funding s outstanding commercial paper and master note borrowings were $1,718 million and $4,354 million as of June 30, 2009 and December 31, 2008, respectively. Prudential Financial has issued a subordinated guarantee covering Prudential Funding s domestic commercial paper program.

As of June 30, 2009 and December 31, 2008, the weighted average maturity of the total commercial paper outstanding was 32 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 June 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 quarter of 2009, the Company repurchased, in individually negotiated transactions, $853 million and $245 million, respectively, of these notes which were offered to the Company by certain holders. These notes were repurchased at a discount resulting in a pre-tax gain of $7 million that is recorded within Asset management fees and other income. As of June 30, 2009, $83 million of these floating rate convertible senior notes remain outstanding. In addition, as of June 30, 2009, $4 million 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.

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 June 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 June 30, 2009, Prudential Insurance had pledged qualifying assets with a fair value of $7,439 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 June 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.

TALF Borrowings

During the first six 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.

As of June 30, 2009, the Company has $1,250 million of securities purchased under TALF that are reflected within Other trading account assets, and has $1,167 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 at fair value as SFAS No. 115 trading assets and the loan at fair value under the fair value option afforded by SFAS No. 159.

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.

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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 June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 41	$ 38	$ 3	$ 3
Interest cost	115	117	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	4	11	
Special termination benefits				
Net periodic (benefit) cost	$ (11)	$ (10)	$ 13	$ (9)

	Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 82	$ 77	$ 6	$ 6
Interest cost	230	234	58	62
Expected return on plan assets	(364)	(360)	(54)	(80)
Amortization of prior service cost	14	22	(6)	(6)
Amortization of actuarial (gain) loss, net	16	8	22	
Special termination benefits		2		
Net periodic (benefit) cost	$ (22)	$ (17)	$ 26	$ (18)

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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, 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.

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 gains of $8 million and $3 million for the three months ended June 30, 2009 and 2008, respectively, and net gains of $13 million and $4 million for the six months ended June 30, 2009 and 2008, respectively). As of June 30, 2009 and December 31, 2008, the fair value of open contracts used for this purpose was a net asset of $38 million and a net asset of $85 million, respectively.

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 $31 million and $17 million for the three months ended June 30, 2009 and 2008, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $5 million and net losses of $6 million, respectively, related to derivative contracts that were terminated or offset in

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prior periods. Adjusted operating income includes net gains of $57 million and $29 million for the six months ended June 30, 2009 and 2008, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $11 million and net losses of $8 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 June 30, 2009	
Segment	**Deferred amount (in millions)**	**Weighted average period**
International Insurance	$ 767	32 years
Corporate and Other	(62)	8 years
Total deferred gain (loss)	$ 705	

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 $487 million and $2 million for the three months ended June 30, 2009 and 2008, respectively, and net gains of $858 million and net losses of $45 million for the six months ended June 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 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 $94 million and $44 million for the three months ended June 30, 2009 and 2008, respectively, and $142 million and of $83 million for the six months ended June 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 afforded by SFAS No. 159. 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 $23 million and $15 million for the three months ended June 30, 2009 and 2008, respectively, and net losses of $17 million and net gains of $18 million for the six months ended June 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 $19 million and $18 million for the three months ended June 30, 2009 and 2008, respectively, and net gains of $59 million and $47 million for the six months ended June 30, 2009 and 2008, respectively.

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.

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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.

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Individual Annuities	$ 432	$ 154	$ 449	$ 269
Retirement	99	141	258	265
Asset Management	33	190	32	309
Total U.S. Retirement Solutions and Investment Management Division	564	485	739	843
Individual Life	138	103	178	199
Group Insurance	105	80	198	170
Total U.S. Individual Life and Group Insurance Division	243	183	376	369
International Insurance	465	453	890	866
International Investments	16	26	26	51
Total International Insurance and Investments Division	481	479	916	917
Corporate Operations	(165)	(17)	(268)	(45)
Real Estate and Relocation Services	3	(3)	(60)	(26)
Total Corporate and Other	(162)	(20)	(328)	(71)
Adjusted Operating Income before income taxes for Financial Services Businesses	1,126	1,127	1,703	2,058
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(872)	(527)	(1,582)	(1,192)
Charges related to realized investment gains (losses), net	(5)	41	39	28
Investment gains (losses) on trading account assets supporting insurance liabilities, net	686	(123)	831	(385)
Change in experience-rated contractholder liabilities due to asset value changes	(347)	94	(392)	294
Divested businesses	(24)	10	(56)	(57)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	14	(32)	17	(68)
	578	590	560	678

Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses				
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	(586)	38	(556)	12
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (8)	$ 628	$ 4	$ 690

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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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Financial Services Businesses:				
Individual Annuities	$ 115	$ 622	$ 2,007	$ 1,195
Retirement	1,230	1,207	2,438	2,474
Asset Management	342	564	605	1,112
Total U.S. Retirement Solutions and Investment Management Division	1,687	2,393	5,050	4,781
Individual Life	703	676	1,383	1,356
Group Insurance	1,303	1,218	2,636	2,475
Total U.S. Individual Life and Group Insurance Division	2,006	1,894	4,019	3,831
International Insurance	2,533	2,329	5,070	4,654
International Investments	108	148	209	318
Total International Insurance and Investments Division	2,641	2,477	5,279	4,972
Corporate Operations	(48)	27	(57)	79
Real Estate and Relocation Services	52	63	51	109
Total Corporate and Other	4	90	(6)	188
Total	6,338	6,854	14,342	13,772
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(872)	(527)	(1,582)	(1,192)
Charges related to realized investment gains (losses), net	(53)	15	(61)	16
Investment gains (losses) on trading account assets supporting insurance liabilities, net	686	(123)	831	(385)
Divested businesses	(16)	28	(42)	(17)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(2)	(40)	12	(100)
Total Financial Services Businesses	6,081	6,207	13,500	12,094

Closed Block Business	825	1,496	1,965	3,167
Total per Unaudited Interim Consolidated Financial Statements	$ 6,906	$ 7,703	$ 15,465	$ 15,261

The Asset Management segment revenues include intersegment revenues of $84 million and $87 million for the three months ended June 30, 2009 and 2008, respectively, and $169 million and $180 million for the six months ended June 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:

	June 30, 2009	December 31, 2008
	(in millions)	
Individual Annuities	$ 68,209	$ 65,516
Retirement	115,597	113,622
Asset Management	31,096	36,504
Total U.S. Retirement Solutions and Investment Management Division	214,902	215,642
Individual Life	33,673	31,781
Group Insurance	32,249	31,657
Total U.S. Individual Life and Group Insurance Division	65,922	63,438
International Insurance	78,694	76,362
International Investments	5,854	8,716
Total International Insurance and Investments Division	84,548	85,078
Corporate Operations	14,569	14,465
Real Estate and Relocation Services	677	1,003
Total Corporate and Other	15,246	15,468
Total Financial Services Businesses	380,618	379,626
Closed Block Business	64,098	65,385
Total per Unaudited Interim Consolidated Financial Statements	$ 444,716	$ 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. SFAS No. 157 establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques 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 liabilities and other market observable inputs. The Company s Level 2 assets and liabilities include: fixed

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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.

The fair value of private fixed maturities 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. 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.

The fair values of common stock mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of preferred equity securities are based on prices obtained from independent pricing services 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.

The fair value of commercial loans held for investment and accounted for using the Fair Value Option, as discussed in Note 2, is 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. The interest rate and market spread assumptions for similar quality loans are generally observable based upon market transactions. The fair value of loans held for sale and accounted for using the Fair Value Option discussed in Note 2 is determined utilizing pricing indicators from the whole loan market, which is considered the principal exit market 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 observable.

The majority of the Company s derivative positions is traded in the over-the-counter (OTC) derivative market and is 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

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contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, yield curves, 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 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.

Other long-term investments carried at fair value 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.

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. In circumstances where vendor pricing is not available, internally developed valuations or non-binding broker quotes are used to determine fair value. Non-binding broker quotes are reviewed for reasonableness, based on the Company s understanding of the market. These estimates may use significant unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. 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. In such cases, the valuations are generally classified as Level 3. As of June 30, 2009 and December 31, 2008 over-rides on a net basis were not material.

As of June 30, 2009 the Company concluded that the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market as defined under FSP FAS 157-4. Therefore, in determining the fair

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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. As a result, the Company reported fair values for these sub-prime securities which were net $693 million higher than the estimated fair values received from independent third party pricing services or brokers. The adjusted fair value of these securities was $5,362 million.

During the second 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 uptick in the level of activity. The Company also observed significant increases in 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, 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, recovered in the second quarter of 2009. Based on this information, the Company concluded as of June 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 illiquidity and asset specific cash flow uncertainty associated with asset-backed securities collateralized by sub-prime mortgages. This combined security specific additional spread reflects our judgment of what an investor would demand for taking on such risks in an orderly transaction under current market conditions at the end of the second quarter of 2009, 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 our recent observations of some limited transactions in shorter-duration 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.

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. Certain public fixed maturities and private fixed maturities priced internally are based on observable and unobservable inputs. 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, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data.

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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.

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.

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. Under SFAS No. 157, the Company is also required to incorporate the Company s own risk of non-performance in the valuation of the embedded derivatives associated with the Company s 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 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 our 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 June 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. In the first quarter of 2009 the Company updated the volatility assumptions for the Individual Annuities segment to reflect both the implied volatility of over-the-counter equity options and an index based on historical volatilities.

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.

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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 options. 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 s values.

Long-term debt carried at fair value 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 (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.

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

	As of June 30, 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	$	$ 6,563	$	$	$ 6,563
Obligations of U.S. states and their political subdivisions		748			748
Foreign government bonds		35,704	43		35,747
Corporate securities		81,570	1,279		82,849
Asset-backed securities		4,494	6,014		10,508
Commercial mortgage-backed securities		10,192	59		10,251
Residential mortgage-backed securities		12,050	197		12,247
Sub-total		151,321	7,592		158,913
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		112			112
Obligations of U.S. states and their political subdivisions		2			2
Foreign government bonds		479			479
Corporate securities		8,415	197		8,612
Asset-backed securities		423	269		692
Commercial mortgage-backed securities		2,127	5		2,132
Residential mortgage-backed securities		1,357	24		1,381
Equity securities	615	186	2		803
All other activity	336	217			553
Sub-total	951	13,318	497		14,766
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		59			59
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		33			33
Corporate securities	10	175	59		244
Asset-backed securities		1,587	35		1,622
Commercial mortgage-backed securities		111	9		120
Residential mortgage-backed securities		112	6		118
Equity securities	72	10	21		103
All other activity	12	4,968	906	(4,470)	1,416
Sub-total	94	7,055	1,036	(4,470)	3,715
Equity securities, available for sale	3,460	2,106	351		5,917
Commercial mortgage and other loans		508			508
Other long-term investments	50	133	495		678
Short term investments	3,251	2,819			6,070
Cash and cash equivalents	2,039	8,432			10,471
Other assets	2,018	453	26		2,497
Sub-total excluding separate account assets	11,863	186,145	9,997	(4,470)	203,535
Separate account assets(1)	54,592	82,470	14,204		151,266

Total assets	$ 66,455	$ 268,615	$ 24,201	$ (4,470)	$ 354,801
Future policy benefits			796		796
Long-term debt			1,167		1,167
Other liabilities	15	4,607	79	(3,878)	823
Total liabilities	$ 15	$ 4,607	$ 2,042	$ (3,878)	$ 2,786

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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 permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

	As of December 31, 2008				
	Level 1	Level 2	Level 3	Netting(2)	Total
			(in millions)		
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 as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended June 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	$ 29	$ 1,041	$ 1,261	$ 62	$ 211
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net:					
Other-than-temporary impairments on fixed maturity securities		(98)	(952)	(3)	
Other-than temporary impairments on fixed maturity securities transferred to Other Comprehensive Income		56	660	1	
Other realized investment gains (losses), net		3			
Total realized investment gains (losses), net		(39)	(292)	(2)	
Asset management fees and other income					
Included in other comprehensive income (loss)	4	87	1,040	(2)	
Net investment income		4	(6)		
Purchases, sales, issuances, and settlements		67	(558)		(14)
Foreign currency translation			2	1	
Other(1)		(24)			
Transfers into (out of) Level 3(2)	10	143	4,567		
Fair value, end of period	$ 43	$ 1,279	$ 6,014	$ 59	$ 197
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:					
Other-than-temporary impairments on fixed maturity securities		(49)	(820)	(3)	
Other-than temporary impairments on fixed maturity securities transferred to Other Comprehensive Income		14	527	1	
Other realized investment gains (losses), net					
Total realized investment gains (losses), net	$	$ (35)	$ (293)	$ (2)	$
Asset management fees and other income	$	$	$	$	$
Included in other comprehensive income (loss)	$ 5	$ 84	$ 1,045	$ (2)	$ 1

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2009				
	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	$ 136	$ 80	$ 5	$ 28	$ 2
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net					
Asset management fees and other income	15	31			
Included in other comprehensive income (loss)					
Net investment income	1				
Purchases, sales, issuances, and settlements	(24)	(28)		(2)	
Foreign currency translation					
Transfers into (out of) Level 3(2)	69	186		(2)	
Fair value, end of period	$ 197	$ 269	$ 5	$ 24	$ 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	$ 11	$ 31	$	$ (1)	$
Included in other comprehensive income (loss)	$	$	$	$	$

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2009				
	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets - Asset-Backed Securities	Other Trading Account Assets - Commercial Mortgage-Backed Securities	Other Trading Account Assets - Residential Mortgage-Backed Securities	Other Trading Account Assets -Equity Securities
	(in millions)				
Fair value, beginning of period	$ 39	$ 811	$ 2	$ 3	$ 16
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net					
Asset management fees and other income	(1)	(3)	(2)	(1)	1
Included in other comprehensive income (loss)					
Net investment income		1			
Purchases, sales, issuances, and settlements		(2)			
Foreign currency translation					1
Other(1)	21				3
Transfers into (out of) Level 3(2)		(772)	9	4	
Fair value, end of period	$ 59	$ 35	$ 9	$ 6	$ 21
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	$ (1)	$ (1)	$ (3)	$ (1)	$ 1
Included in other comprehensive income (loss)	$	$	$	$	$

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 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	$ 1,109	$ 327	$ 16	$ 389	$ 26
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(223)	1	(2)		
Asset management fees and other income	(18)			3	
Included in other comprehensive income		23			
Net investment income					
Purchases, sales, issuances, and settlements	33	(10)	(14)	107	
Foreign currency translation		5			
Other(1)	5	(1)		(4)	
Transfers into (out of) Level 3(2)		6			
Fair value, end of period	$ 906	$ 351	$	$ 495	$ 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	$ (238)	$ (1)	$	$	$
Asset management fees and other income	$ (2)	$	$	$ 2	$
Included in other comprehensive income (loss)	$	$ 35	$	$	$

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2009			
	Separate Account Assets(4)	Future Policy Benefits	Long-Term Debt	Other Liabilities
	(in millions)			
Fair value, beginning of period	$ 16,145	$ (1,816)	$ (736)	$ (194)
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net		1,050		79
Asset management fees and other income			(40)	
Interest credited to policyholders account balances	(2,054)			
Included in other comprehensive income				
Net investment income				
Purchases, sales, issuances, and settlements	225	(30)	(391)	36
Foreign currency translation				
Other(1)				
Transfers into (out of) Level 3(2)	(112)			
Fair value, end of period	$ 14,204	$ (796)	$ (1,167)	$ (79)
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	$	$ 976	$	$ 79
Asset management fees and other income	$	$	$ (40)	$
Interest credited to policyholders account balances	$ (2,272)	$	$	$

(1) Other represents the impact of the deconsolidation of certain real estate 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 three months ended June 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 defined under FSP FAS 157-4, as discussed in detail above. 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 Fixed Maturities Available for Sale Corporate securities for the three months ended June 30, 2009 were primarily due to changes in the contractual terms of a private security that resulted in the use of unobservable inputs within the valuation methodologies when previously, observable inputs were available.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 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:					
Other-than-temporary impairments on fixed maturity securities		(138)	(1,020)	(3)	
Other-than temporary impairments on fixed maturity securities transferred to Other Comprehensive Income		53	692	1	
Other realized investment gains (losses), net		1			
Total realized investment gains (losses), net		(84)	(328)	(2)	
Asset management fees and other income					
Included in other comprehensive income (loss)	3	17	851	(5)	
Net investment income		9	(4)		
Purchases, sales, issuances, and settlements		63	(611)		(31)
Foreign currency translation			(2)		
Other(1)		(24)			
Transfers into (out of) Level 3(2)	10	366	5,095		
Fair value, end of period	$ 43	$ 1,279	$ 6,014	$ 59	$ 197
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:					
Other-than-temporary impairments on fixed maturity securities	$	$ (114)	$ (1,108)	$ (3)	$
Other-than temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	$	$ 36	$ 779	$ 1	$
Other realized investment gains (losses), net	$	$	$	$	$
Total realized investment gains (losses), net	$	$ (78)	$ (329)	$ (2)	$
Asset management fees and other income	$	$	$	$	$
Included in other comprehensive income (loss)	$ 3	$ 12	$ 813	$ (5)	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2009				
	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	7	16	(1)		
Included in other comprehensive income (loss)					
Net investment income	2				
Purchases, sales, issuances, and settlements	(28)	(33)		(2)	1
Foreign currency translation					
Transfers into (out of) Level 3(2)	141	251		(2)	
Fair value, end of period	$ 197	$ 269	$ 5	$ 24	$ 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	$ 3	$ 16	$ (1)	$	$
Included in other comprehensive income (loss)	$	$	$	$	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2009				
	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets - Asset-Backed Securities	Other Trading Account Assets - Commercial Mortgage-Backed Securities	Other Trading Account Assets - Residential Mortgage-Backed Securities	Other Trading Account Assets -Equity Securities
	(in millions)				
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		(41)	(2)	(2)	(1)
Included in other comprehensive income (loss)					
Net investment income		1			
Purchases, sales, issuances, and settlements		819		1	
Foreign currency translation					
Other(1)	21				3
Transfers into (out of) Level 3(2)		(774)	9	4	
Fair value, end of period	$ 59	$ 35	$ 9	$ 6	$ 21
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	$	$ (41)	$ (2)	$ (2)	$ (1)
Included in other comprehensive income (loss)	$	$	$	$	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 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	(129)	(3)	(5)		
Asset management fees and other income	(3)			(26)	
Included in other comprehensive income		20			
Net investment income					
Purchases, sales, issuances, and settlements	(271)	7	(51)	162	
Foreign currency translation		(2)			
Other(1)	5	(1)		(656)	
Transfers into (out of) Level 3(2)		5			
Fair value, end of period	$ 906	$ 351	$	$ 495	$ 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	$ (131)	$ (5)	$	$	$
Asset management fees and other income	$	$	$	$ (24)	$
Included in other comprehensive income (loss)	$	$ 19	$	$	$

	Six Months Ended June 30, 2009			
	Separate Account Assets(4)	Future Policy Benefits	Long-Term Debt	Other Liabilities
Fair value, beginning of period	$ 19,780	$ (3,229)	$ (324)	$ (139)
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net		2,485		24
Asset management fees and other income				
Interest credited to policyholders account balances	(5,572)			
Included in other comprehensive income				
Net investment income				
Purchases, sales, issuances, and settlements	267	(52)	(1,167)	36
Foreign currency translation				
Other(1)			324	
Transfers into (out of) Level 3(2)	(271)			
Fair value, end of period	$ 14,204	$ (796)	$ (1,167)	$ (79)

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	$	$ 2,427	$	$ 24
Asset management fees and other income	$	$	$	$
Interest credited to policyholders account balances	$ (5,847)	$	$	$

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(1) Other represents the impact of the deconsolidation of certain real estate 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 six months ended June 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 defined under FSP FAS 157-4, 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. 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended June 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	$ 3,099	$ 193	$ 626	$ 187	$
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(85)		(67)	(1)	(5)
Asset management fees and other income			1		
Included in other comprehensive income (loss)	(7)			(9)	
Net investment income	1	(1)			
Purchases, sales, issuances, and settlements	(306)	(7)	81	22	(6)
Foreign currency translation			(1)	(1)	
Transfers into (out of) Level 3(1)	(843)	(28)		(60)	81
Fair value, end of period	$ 1,859	$ 157	$ 640	$ 138	$ 70
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	$ (92)	$	$ (68)	$ (2)	$ (4)
Asset management fees and other income	$	$ (2)	$ 2	$	$
Included in other comprehensive income (loss)	$ (7)	$	$	$ (9)	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2008				
	Other Long-term Investments	Separate Account Assets(3)	Future Policy Benefits	Long-Term Debt	Other Liabilities
			(in millions)		
Fair value, beginning of period	$ 877	$ 22,108	$ (452)	$ (184)	$ (118)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net			147		30
Asset management fees and other income	8				
Interest credited to policyholders account balances		(240)			
Included in other comprehensive income					
Net investment income	1				
Purchases, sales, issuances, and settlements	42	956	(22)	(27)	
Transfers into (out of) Level 3(1)		1,735			
Fair value, end of period	$ 928	$ 24,559	$ (327)	$ (211)	$ (88)
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	$	$	$ 134	$	$ 31
Asset management fees and other income	$ 9	$	$	$ (1)	$
Interest credited to policyholders account balances	$	$ (112)	$	$	$

(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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Transfers Transfers out of Level 3 for Fixed Maturities Available for Sale and Equity Securities Available for Sale totaled $843 million and $60 million, respectively, during the three months ended June 30, 2008. This activity was a result of the use of pricing service information that the Company was able to validate in the second quarter of 2008 but which was not available in the first quarter of 2008. The amount of Separate Account Assets transferred into Level 3 in the second quarter total $1,735 million. This resulted from further review of valuation methodologies for certain assets that had been previously classified as Level 2. In addition, for certain assets, third party prices with backtesting were not available in the current quarter and the use of broker quotes required a transfer to Level 3. Transfers of Commercial Loans into Level 3 totaled $81 million and resulted from a reduction in the availability of market available prices during the second quarter due to market illiquidity.

	Six Months Ended June 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	$ 2,890	$ 291	$ 497	$ 190	$
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(229)		32	(2)	(5)
Asset management fees and other income		1	(4)		
Included in other comprehensive income (loss)	(129)			(21)	
Net investment income	4	(1)			
Purchases, sales, issuances, and settlements	(364)	(16)	115	20	(6)
Foreign currency translation					
Transfers into (out of) Level 3(1)	(313)	(118)		(49)	81
Fair value, end of period	$ 1,859	$ 157	$ 640	$ 138	$ 70
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	$ (232)	$	$ 32	$ (3)	$ (4)
Asset management fees and other income	$	$ (11)	$ (4)	$	$
Included in other comprehensive income (loss)	$ (125)	$	$	$ (21)	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 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			(118)		(11)
Asset management fees and other income	90			1	
Interest credited to policyholders account balances		(71)			
Included in other comprehensive income					
Net investment income	3				
Purchases, sales, issuances, and settlements	11	1,118	(41)	(60)	
Transfers into (out of) Level 3(1)		1,697			
Fair value, end of period	$ 928	$ 24,559	$ (327)	$ (211)	$ (88)
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	$	$	$ (133)	$	$ (11)
Asset management fees and other income	$ 59	$	$	$ 1	$
Interest credited to policyholders account balances	$	$ (234)	$	$	$

(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.

Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. The Company has written down certain commercial loans held at June 30, 2009 that are carried at the lower of cost or market, to their fair value of $67 million. This resulted in charges of $12 million and $22 million for the three and six months ended June 30, 2009, respectively. 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. Losses of $21 million and $44 million were recorded for the three and six months ended June 30, 2008, respectively, for similar assets held at June 30, 2008.

In addition, impairments of $18 million and $41 million were recorded for the three and six months ended June 30, 2009, respectively, on certain cost method investments. The carrying value as of June 30, 2009 of these investments was $129 million. Impairments on similar investments of $8 million and $9 million were recorded for the three and six months ended June 30, 2008, respectively. Impairments of $1 million were recorded for the three and six months ended June 30, 2009 on certain equity method investments. The carrying value as of

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

June 30, 2009 of these investments was $33 million. Impairments on similar investments of $3 million and $4 million were recorded for the three and six months ended June 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.

Fair Value Option SFAS No. 159 provides a fair value option election that allows the Company to irrevocably elect fair value as the measurement attribute for certain financial assets and liabilities. The following table presents information regarding changes in fair values recorded in earnings, including gains or losses on sales, for commercial mortgage loans and long-term debt where the fair value option has been elected.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Assets:				
Commercial Mortgage Loans:				
Changes in instrument-specific credit risk	$ (16)	$ (2)	$ (35)	$ (21)
Other changes in fair value	3	(15)	1	(1)
Liabilities:				
Long-term debt:				
Changes in fair value	$ (40)	$	$	$

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 $11 million for the three months ended June 30, 2009 and 2008 and $20 million and $21 million for the six months ended June 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 $508 million and $547 million, respectively, as of June 30, 2009.

The fair values and aggregate contractual principal amounts of long-term debt, for which the fair value option has been elected, were $1,167 million as of June 30, 2009. Interest expense recorded on this debt is included in general and administrative expenses. For the three and six months ended June 30, 2009, the Company recorded $4 million of interest expense.

Fair Value of Financial Instruments Under SFAS No. 107, Disclosures about Fair Value of Financial Instruments, the Company is required to disclose the fair value of certain financial instruments. 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.

PRUDENTIAL FINANCIAL, INC.

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:

	June 30, 2009 Carrying Amount	Fair Value
	(in millions)	
Assets:		
Fixed maturities, held to maturity	$ 4,935	$ 4,938
Commercial mortgage and other loans	32,694	30,792
Policy loans	9,856	11,615
Wachovia Securities lookback option	580	2,536
Liabilities:		
Policyholder account balances Investment contracts	72,109	71,658
Short-term and long-term debt	24,624	22,090
Debt of consolidated VIEs	413	193
Bank customer liabilities	1,365	1,378
Separate account liabilities Investment contracts	75,401	75,401

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. In accordance with EITF Issue No. 08-5, 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 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 with Other liabilities.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 June 30, 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 $29 million for the six months ended June 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 six months ended June 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, 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

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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 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.

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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 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.

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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.

	June 30, 2009			December 31, 2008		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
			(in millions)			
Qualifying Hedge Relationships						
Interest Rate	$ 7,661	$ 102	$ (516)	$ 6,315	$ 124	$ (901)
Currency	1,036	1	(14)	1,974	56	(83)
Currency/Interest Rate	2,392	25	(212)	2,372	68	(140)
Total Qualifying Hedge Relationships	$ 11,089	$ 128	$ (742)	$ 10,661	$ 248	$ (1,124)
Non-qualifying Hedge Relationships						
Interest Rate	$ 84,639	$ 2,651	$ (2,311)	$ 81,280	$ 6,013	$ (3,610)
Currency	9,140	185	(196)	6,286	243	(380)
Credit	3,723	344	(240)	3,100	397	(308)
Currency/Interest Rate	5,726	128	(156)	6,173	686	(518)
Equity	6,541	1,355	(93)	7,306	1,915	(7)
Total Non-qualifying Hedge Relationships	$ 109,769	$ 4,663	$ (2,996)	$ 104,145	$ 9,254	$ (4,823)
Total Derivatives(1)	$ 120,858	$ 4,791	$ (3,738)	$ 114,806	$ 9,502	$ (5,947)

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a liability of $1,522 million as of June 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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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 June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	(in millions)			
Qualifying Hedges				
Fair value hedges				
Interest Rate				
Realized investment gains (losses), net	$ 208	$ 227	$ 304	$ 21
Net investment income	(40)	(33)	(80)	(46)
Interest expense (increase)/decrease			1	
Interest credited to policyholder account balances (increase)/decrease	17	21	29	7
Currency				
Realized investment gains (losses), net				(3)
Net investment income		(1)		(12)
Other income			2	38
Total fair value hedge	$ 185	$ 214	$ 256	$ 5
Cash flow hedges				
Interest Rate				
Interest expense (increase)/decrease	$ (4)	$ (3)	$ (8)	$ (4)
Interest credited to policyholder account balances (increase)/decrease	(2)	1	(3)	1
Accumulated other comprehensive income(1)	25	28	47	11
Currency/Interest Rate				
Net investment income	(2)	(4)	(4)	(9)
Interest expense (increase)/decrease		4		11
Other income	3	36	(1)	(33)
Accumulated other comprehensive income(1)	(111)	8	(92)	(92)
Total cash flow hedges	$ (91)	$ 70	$ (61)	$ (115)
Net investment hedges				
Currency				
Realized investment gains (losses), net(2)	$ 27	$	$ 36	$ (1)
Accumulated other comprehensive income(1)	(150)	40	(40)	70
Currency/Interest Rate				
Accumulated other comprehensive income(1)	(78)	7	(17)	8
Total net investment hedges	$ (201)	$ 47	$ (21)	$ 77
Non-qualifying hedges				
Realized investment gains (losses), net				
Interest Rate	$ (1,512)	$ (292)	$ (2,052)	$ (21)
Currency	(160)	158	34	(82)
Currency/Interest Rate	(162)	(8)	(131)	(45)
Credit	41	101	23	113

Equity	(688)	(94)	(486)	104
Embedded Derivatives (Interest/Equity/Credit)	1,219	180	2,498	(324)
Total non-qualifying hedges	$ (1,262)	$ 45	$ (114)	$ (255)
Total Derivative Impact	$ (1,369)	$ 376	$ 60	$ (288)

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

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For the three and six months ended June 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 SFAS No. 133. 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 June 30, 2009	(71)
Amount reclassified into current period earnings	26
Balance, June 30, 2009	$ (272)

As of June 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) were losses of $228 million and gains of $47 million for the three months ended June 30, 2009 and 2008, respectively, and losses of $57 million and gains of $78 million for the six months ended June 30, 2009 and 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 June 30, 2009 and December 31, 2008.

		June 30, 2009					
		Single Name		First to Default Basket(1)		Total	
NAIC Designation	Rating Agency Equivalent	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
		(in millions)					
1	Aaa, Aa, A	$ 318	$ 1	$ 188	$ (8)	$ 506	$ (7)

2	Baa	35		315	(27)	350	(27)
	Subtotal Investment Grade	353	1	503	(35)	856	(34)
3	Ba			262	(35)	262	(35)
4	B						
5	C and lower			50	(9)	50	(9)
6	In or near default						
	Subtotal Below Investment Grade			312	(44)	312	(44)
Total		$353	$ 1	$ 815	$ (79)	$ 1,168	$ (78)

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		December 31, 2008					
		Single Name		First to Default Basket(1)		Total	
NAIC Designation	Rating Agency Equivalent	Notional	Fair Value	Notional	Fair Value	Notional	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.

	June 30, 2009		December 31, 2008	
Industry	Notional	Fair Value	Notional	Fair Value
	(in millions)			
Corporate Securities:				
Manufacturing	$ 45	$	$ 45	$ (1)
Utilities	5		5	
Finance				
Services	28		25	
Energy	20	1	20	(1)
Transportation	30		30	(1)
Retail and Wholesale	30		30	(1)
Other	195		195	(6)
First to Default Baskets(1)	815	(79)	872	(138)
Total Credit Derivatives	$ 1,168	$ (78)	$ 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 June 30, 2009 and December 31, 2008, was a liability of $53 million and $16 million, net of $53 million and $125 million of collateral that has been pledged, respectively.

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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 $1,079 million and $1,095 million at June 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 June 30, 2009 and December 31, 2008, the Company had $2.055 billion and $1.378 billion of outstanding notional amounts, reported at fair value as an asset of $235 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 June 30, 2009	**Six Months Ended June 30, 2009**

	(in millions)	
Asset management fees and other income		
Interest Rate	$ (5)	$ (3)
Commodity	14	29
Currency	11	20
Equity	2	4
Total asset management fees and other income	$ 22	$ 50

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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 $621 million as of June 30, 2009. In the normal course of business the Company has posted cash collateral related to these instruments of $595 million as of June 30, 2009. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2009, the Company estimates that it would be required to post a maximum of $26 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 June 30, 2009, the Company had outstanding commercial mortgage loan commitments with borrowers of $2,022 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 June 30, 2009, $1,045 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 commitments amounted to $9,879 million at June 30, 2009. Reflected in these other commitments are $9,838 million of commitments to purchase or fund investments, including $6,234 million that the Company anticipates will ultimately be funded from its separate accounts. Of these separate account commitments, $2,668 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 the separate account has borrowed funds, and the Company has guaranteed their obligation to their lender. The Company provides these guarantees to assist the separate account in obtaining financing for the transaction. The Company s maximum potential exposure under these guarantees was $1,554 million at June 30, 2009, of which all but $278 million is limited to the assets of the separate account for 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 June 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 of the Company under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide the Company with 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 current 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 $171 million at June 30, 2009, which assumes the co-owner honors its joint guarantee.

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 $1,168 million as of June 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, at fair value, in accordance with SFAS No. 133. At June 30, 2009, such contracts in force carried a total guaranteed value of $6,576 million. These guarantees are supported by collateral that is not reflected on the Company s balance sheet. This collateral had a fair value of $6,587 million at June 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 June 30, 2009, such enhancement arrangements total $220 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 $275 million at June 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 June 30, 2009, the Company has accrued liabilities of $1 million representing unearned fees on 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 $7,490 million of mortgages subject to these loss-sharing arrangements as of June 30, 2009, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of June 30, 2009, these mortgages had an average debt service coverage ratio of 1.60 times and an average loan-to-value ratio of 69%. The maximum exposure to loss as of June 30, 2009, assuming no recovery on any of the underlying collateral, is $997 million, with first-loss exposure of $317 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 six months of 2009. As of June 30, 2009, the Company has established a liability of $19 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 June 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 June 30, 2009, the Company has accrued liabilities of $5 million associated with all other financial guarantees and indemnity arrangements, which does not include retained liabilities associated with sold businesses.

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its 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 of her disability benefits were reduced by the challenged offset, 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 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 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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).

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

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.

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 FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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. In the settlements, ASISI has agreed to retain, 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.

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.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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. The complaint names all of the same defendants as the prior complaints, with the exception of the Company s independent auditors.

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, 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Financial Position

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

	June 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	$ 119,084	$ 39,829	158,913	$ 119,153	$ 38,903	$ 158,056
Fixed maturities, held to maturity, at amortized cost	4,935		4,935	3,808		3,808
Trading account assets supporting insurance liabilities, at fair value	14,766		14,766	13,875		13,875
Other trading account assets, at fair value	3,550	165	3,715	4,216	120	4,336
Equity securities, available for sale, at fair value	3,404	2,513	5,917	3,665	2,400	6,065
Commercial mortgage and other loans	23,961	8,733	32,694	24,366	8,748	33,114
Policy loans	4,413	5,443	9,856	4,280	5,423	9,703
Securities purchased under agreements to resell				480		480
Other long-term investments	4,170	1,546	5,716	5,383	1,629	7,012
Short-term investments	5,790	1,347	7,137	4,092	1,484	5,576
Total investments	184,073	59,576	243,649	183,318	58,707	242,025
Cash and cash equivalents	11,798	1,693	13,491	13,054	1,974	15,028
Accrued investment income	1,571	660	2,231	1,603	663	2,266
Deferred policy acquisition costs	12,768	1,706	14,474	13,127	1,999	15,126
Deferred income taxes, net				(533)	1,639	1,106
Other assets	19,142	463	19,605	21,962	403	22,365
Separate account assets	151,266		151,266	147,095		147,095
TOTAL ASSETS	$ 380,618	$ 64,098	444,716	$ 379,626	$ 65,385	$ 445,011
LIABILITIES AND EQUITY LIABILITIES						
Future policy benefits	$ 69,699	$ 51,695	$ 121,394	$ 70,221	$ 51,730	$ 121,951
Policyholders account balances	95,680	5,597	101,277	93,991	5,622	99,613
Policyholders dividends	628	1,039	1,667	634	1,036	1,670
Securities sold under agreements to repurchase	3,467	3,701	7,168	4,288	3,612	7,900
Cash collateral for loaned securities	2,233	1,429	3,662	2,684	1,484	4,168
Income taxes	2,213	(1,436)	777	364	95	459
Short-term debt	3,643		3,643	10,092	443	10,535
Long-term debt	19,231	1,750	20,981	18,540	1,750	20,290
Other liabilities	13,275	931	14,206	17,074	470	17,544
Separate account liabilities	151,266		151,266	147,095		147,095
Total liabilities	361,335	64,706	426,041	364,983	66,242	431,225
COMMITMENTS AND CONTINGENT LIABILITIES						
EQUITY						
Accumulated other comprehensive loss	(3,513)	(1,489)	(5,002)	(5,237)	(2,106)	(7,343)
Other attributed equity	22,194	881	23,075	19,529	1,249	20,778
Total attributed equity	18,681	(608)	18,073	14,292	(857)	13,435
Noncontrolling interests	602		602	351		351
Total equity	19,283	(608)	18,675	14,643	(857)	13,786
TOTAL LIABILITIES AND EQUITY	$ 380,618	$ 64,098	$ 444,716	$ 379,626	$ 65,385	$ 445,011

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

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

	Three Months Ended June 30,					
	2009			2008		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 3,320	$ 867	$ 4,187	$ 2,962	$ 965	$ 3,927
Policy charges and fee income	713		713	824		824
Net investment income	2,057	778	2,835	2,155	871	3,026
Asset management fees and other income	1,409	37	1,446	816	8	824
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(875)	(437)	(1,312)	(452)	(209)	(661)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	548	265	813			
Other realized investment gains (losses), net	(1,091)	(685)	(1,776)	(98)	(139)	(237)
Total realized investment gains (losses), net	(1,418)	(857)	(2,275)	(550)	(348)	(898)
Total revenues	6,081	825	6,906	6,207	1,496	7,703
BENEFITS AND EXPENSES						
Policyholders benefits	2,894	992	3,886	2,918	1,093	4,011
Interest credited to policyholders account balances	1,064	35	1,099	710	35	745
Dividends to policyholders	24	253	277	3	155	158
General and administrative expenses	1,521	131	1,652	1,986	175	2,161
Total benefits and expenses	5,503	1,411	6,914	5,617	1,458	7,075
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	578	(586)	(8)	590	38	628
Income tax expense (benefit)	49	(211)	(162)	37	23	60
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	529	(375)	154	553	15	568
Equity in earnings of operating joint ventures, net of taxes	5		5	24		24
INCOME (LOSS) FROM CONTINUING OPERATIONS	534	(375)	159	577	15	592
Income (loss) from discontinued operations, net of taxes	21		21	(3)		(3)
NET INCOME (LOSS)	555	(375)	180	574	15	589
Less: Income attributable to noncontrolling interests	17		17	8		8
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 538	$ (375)	$ 163	$ 566	$ 15	$ 581

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Six Months Ended June 30, 2009 and 2008 (in millions)

	Six Months Ended June 30, 2009			2008		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 6,581	$ 1,640	$ 8,221	$ 6,064	$ 1,821	$ 7,885
Policy charges and fee income	1,439		1,439	1,649		1,649
Net investment income	4,125	1,565	5,690	4,275	1,777	6,052
Asset management fees and other income	2,193	52	2,245	1,458	27	1,485
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(1,957)	(1,210)	(3,167)	(840)	(360)	(1,200)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	1,206	857	2,063			
Other realized investment gains (losses), net	(87)	(939)	(1,026)	(512)	(98)	(610)
Total realized investment gains (losses), net	(838)	(1,292)	(2,130)	(1,352)	(458)	(1,810)
Total revenues	13,500	1,965	15,465	12,094	3,167	15,261
BENEFITS AND EXPENSES						
Policyholders benefits	6,323	1,904	8,227	5,981	2,065	8,046
Interest credited to policyholders account balances	2,198	70	2,268	1,312	70	1,382
Dividends to policyholders	20	256	276	60	657	717
General and administrative expenses	4,399	291	4,690	4,063	363	4,426
Total benefits and expenses	12,940	2,521	15,461	11,416	3,155	14,571
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	560	(556)	4	678	12	690
Income tax expense (benefit)	42	(200)	(158)	78	5	83
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	518	(356)	162	600	7	607
Equity in earnings of operating joint ventures, net of taxes	(1)		(1)	67		67
INCOME (LOSS) FROM CONTINUING OPERATIONS	517	(356)	161	667	7	674
Income (loss) from discontinued operations, net of taxes	22		22	(1)		(1)
NET INCOME (LOSS)	539	(356)	183	666	7	673
Less: Income attributable to noncontrolling interests	6		6	32		32
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 533	$ (356)	$ 177	$ 634	$ 7	$ 641

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.

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 June 30, 2009, compared with December 31, 2008, and its consolidated results of operations for the three and six months ended June 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, 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, 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 $580 billion of assets under management as of June 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 experienced extreme stress since the second half of 2007. Volatility and disruption in the global financial markets reached unprecedented levels for the post World War II period. The availability and cost of credit has been 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, have precipitated a severe economic recession and concerns of prolonged adverse economic conditions.

Due to the economic environment, the global fixed-income markets have experienced both extreme volatility and limited market liquidity conditions, which has affected a broad range of asset classes and sectors. As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. These events in the credit markets as well as volatility in equity and real estate markets have had and may continue to have a substantial adverse effect on us.

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 (as of July 2009) 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.

As a result of the volatility and disruption in the global financial markets and in order to manage our liquidity and capital resources, we undertook certain actions during 2008 as described in more detail in our 2008 Annual Report on Form 10-K. Due to the continuation of the financial market dislocations into 2009 and in order to continue to manage our liquidity and capital resources, we undertook certain additional actions in the first half of 2009, including 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) and $1 billion of medium-term notes.

- 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 prevented us from investing our resources in an economically optimal manner. For additional information on our liquidity and capital resources, and the actions we undertook in the first half of 2009, see Liquidity and Capital Resources.

We continue to monitor the liquidity and capital needs of Prudential Financial and its subsidiaries. If the disruption in the credit and capital markets continues or worsens, we will need to 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 continue to deteriorate, further access to external sources of capital, if available.

During the first quarter 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 half of 2009 reflect the following:

- Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the three and six months ended June 30, 2009 was $538 million and $533 million, respectively, reflecting net realized investment losses and related adjustments in our investment portfolio in both periods and the positive impact of improved financial market conditions during the second quarter of 2009 on reported results of our Individual Annuities segment.

- Pre-tax net realized investment losses and related adjustments of the Financial Services Businesses for the three and six months ended June 30, 2009 were $872 million and $1,582 million, respectively, primarily reflecting decreases in market value of derivatives used in investment duration management and hedging programs of $519 million and $599 million and other-than-temporary impairments of fixed maturity and equity securities of $391 million and $1,068 million, for the three and six months ended June 30, 2009, respectively.

- Net unrealized losses on general account fixed maturity investments of the Financial Services Businesses amounted to $4.352 billion as of June 30, 2009, compared to $6.567 billion as of December 31, 2008. Gross unrealized gains decreased from $4.684 billion as of December 31, 2008 to $3.454 billion as of June 30, 2009 and gross unrealized losses decreased from $11.251 billion to $7.806 billion for the same periods. Net unrealized losses on general account fixed maturity investments of the Closed Block Business amounted to $2.816 billion as of June 30, 2009, compared to $4.035 billion as of December 31, 2008.

- We continued to have positive net flows in our domestic annuity, retirement and asset management businesses, as well as solid sales in our domestic and international insurance businesses, in the second quarter and first six months of 2009.

- Individual Annuity gross sales for the second quarter of 2009 reached a record high of $3.4 billion, an increase from $2.8 billion in the prior year quarter. Individual Annuity net sales for the second quarter of 2009 were $2.0 billion, an increase from $518 million in the prior year quarter, and were $2.7 billion in the first six months of 2009, an increase from $1.1 billion in the prior year.

- As of June 30, 2009, Prudential Financial, the parent holding company, had cash and short-term investments of $4.735 billion after repayment during the second quarter of 2009 of $1.8 billion principal amount of Prudential Financial convertible debt securities.

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 six months ended June 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Adjusted operating income before income taxes for segments of the Financial Services Businesses:				
Individual Annuities	$ 432	$ 154	$ 449	$ 269
Retirement	99	141	258	265
Asset Management	33	190	32	309
Individual Life	138	103	178	199
Group Insurance	105	80	198	170
International Insurance	465	453	890	866
International Investments	16	26	26	51
Corporate and Other	(162)	(20)	(328)	(71)
Reconciling Items:				
Realized investment gains (losses), net, and related adjustments	(872)	(527)	(1,582)	(1,192)
Charges related to realized investment gains (losses), net	(5)	41	39	28
Investment gains (losses) on trading account assets supporting insurance liabilities, net	686	(123)	831	(385)
Change in experience-rated contractholder liabilities due to asset value changes	(347)	94	(392)	294
Divested businesses	(24)	10	(56)	(57)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	14	(32)	17	(68)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	578	590	560	678
Income (loss) from continuing operations before income taxes for Closed Block Business	(586)	38	(556)	12
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (8)	$ 628	$ 4	$ 690

Results for the three and six months ended June 30, 2009 presented above reflect the following:

Individual Annuities segment results for the second quarter and first six months of 2009 increased in comparison to the prior year periods, primarily reflecting the impact of improved market conditions. Results for the second quarter and first six months of 2009 included $416 million and $89 million, respectively, of benefits related to both reserve releases and decreases in the amortization of deferred policy acquisition and other costs, due to market appreciation. Also impacting results was a $468 million unfavorable variance in the three month period and a $890 million favorable variance in the six month period, related to the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. These variances were largely driven by changes in our adjustment to the embedded derivative liabilities for market-perceived non-performance risk, and resulted in a corresponding $416 million decrease in the three month period, and $664 million increase in the six month period, in the amortization of deferred policy acquisition and other costs. Also contributing to results in both periods was a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts.

Retirement segment results for the second quarter and first six months of 2009 decreased in comparison to the corresponding prior year periods, primarily driven by a decline in asset management fees, due to a decrease in average full service fee-based retirement account values, primarily resulting from equity market depreciation. Partially offsetting the decline in the six month period was improved investment results in our full service business.

Asset Management segment results for the second quarter of 2009 decreased in comparison to the second quarter of 2008, largely attributable to unfavorable results from the segment s proprietary investing activities and commercial mortgage origination and servicing activities, as well as lower asset management and transaction fees. These items were partially offset by a decrease in compensation costs. Results for the first six months of 2009 decreased due to less favorable results from the segment s proprietary investing activities and commercial mortgage origination and servicing activities, as well as lower asset management fees, performance based incentive fees and transaction fees, partially offset by lower compensation costs.

Individual Life segment results for the second quarter of 2009 improved from the second quarter of 2008 primarily due to a decrease in amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves, primarily reflecting favorable separate account fund performance. Favorable mortality experience, net of reinsurance, also contributed to the improvement in adjusted operating income partially offset by a decrease in asset based fees. Results for the first six months of 2009 declined from the first six months of 2008 primarily due to a decrease in asset based fees due to lower separate account asset balances resulting from the unfavorable impact of equity market performance in late 2008 and early 2009.

Group Insurance segment results improved in both the second quarter of 2009 and the first six months of 2009, reflecting more favorable claims experience in both our group life and group disability businesses.

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 second quarter of 2009 and the first six months of 2009, reflecting a $25 million benefit from the migration to a new policy valuation system and from the continued growth of our Japanese Life Planner operation. Results from the segment s Gibraltar Life operation declined in both the second quarter of 2009 and the first six months of 2009, reflecting a $7 million detriment from the migration to a new policy valuation system and higher general and administrative expenses.

International Investments segment results declined in both the second quarter of 2009 and the first six months of 2009, reflecting lower results from the segment s Korean asset management operation and global commodities group.

Corporate and Other results for the second quarter of 2009 declined from the second quarter of 2008 primarily due to increased interest expense on a higher level of capital debt and lower investment earnings. Results for the first six months of 2009 declined from the first six months of 2008 primarily due to lower investment earnings, 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 second quarter and first six months of 2009 amounted to a loss of $872 million and $1,582 million, respectively, primarily reflecting other-than-temporary impairments of fixed maturity and equity securities of $391 million and $1,068 million, respectively, as well as decreases in the fair value of derivative used in investment duration management and hedging programs of $519 million and $599 million, respectively.

Income (loss) from continuing operations before income taxes in the Closed Block Business decreased $624 million in the second quarter of 2009 compared to the second quarter of 2008, and $568 million for the first six months of 2009 compared to the first six months of 2008. Results in both periods of 2009 reflect higher net realized investment losses and a decrease in net investment income, which were partially offset by the cumulative earnings policyholder dividend obligation which was reduced to zero.

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;

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 June 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 second quarter of 2009. The carrying value of goodwill was $706 million as of June 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 FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments , FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments , FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements.

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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Financial Services Businesses by segment:				
Individual Annuities	$ 411	$ 117	$ 399	$ 196
Retirement	42	(145)	(16)	(265)
Asset Management	29	188	11	337
Total U.S. Retirement Solutions and Investment Management Division	482	160	394	268
Individual Life	201	169	210	129
Group Insurance	17	(36)	9	(33)
Total U.S. Individual Life and Group Insurance Division	218	133	219	96
International Insurance	163	174	185	493
International Investments	5	21	7	40
Total International Insurance and Investments Division	168	195	192	533
Corporate and Other	(290)	102	(245)	(219)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	578	590	560	678
Income tax expense	49	37	42	78
Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	529	553	518	600
Equity in earnings of operating joint ventures, net of taxes	5	24	(1)	67
Income from continuing operations for Financial Services Businesses	534	577	517	667
Income (loss) from discontinued operations, net of taxes	21	(3)	22	(1)
Net income Financial Services Businesses	555	574	539	666
Less: Income attributable to noncontrolling interests	17	8	6	32
Net income attributable to Prudential Financial, Inc.	$ 538	$ 566	$ 533	$ 634
Basic income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 1.21	$ 1.34	$ 1.23	$ 1.50
Diluted income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 1.20	$ 1.33	$ 1.23	$ 1.49
Basic net income attributable to Prudential Financial, Inc. per share Common Stock	$ 1.25	$ 1.33	$ 1.28	$ 1.50
Diluted net income attributable to Prudential Financial, Inc. per share Common Stock	$ 1.25	$ 1.32	$ 1.28	$ 1.49
Closed Block Business:				
Income (loss) from continuing operations before income taxes for Closed Block Business	$ (586)	$ 38	$ (556)	$ 12
Income tax expense (benefit)	(211)	23	(200)	5
Income (loss) from continuing operations for Closed Block Business	(375)	15	(356)	7
Income from discontinued operations, net of taxes				
Net income (loss) Closed Block Business	(375)	15	(356)	7
Less: Income (loss) attributable to noncontrolling interests				

Net income (loss) attributable to Prudential Financial, Inc.	$ (375)	$ 15	$ (356)	$ 7
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ (193.00)	$ 0.50	$ (189.00)	$ (9.50)
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock	$ (193.00)	$ 0.50	$ (189.00)	$ (9.50)
Consolidated:				
Net income attributable to Prudential Financial, Inc.	$ 163	$ 581	$ 177	$ 641

Results of Operations Financial Services Businesses

2009 to 2008 Three Month Comparison. Income (loss) from continuing operations for the Financial Services Businesses decreased $43 million, from income of $577 million in the second quarter of 2008 to income of $534 million in the second quarter of 2009. Results for the current year quarter include a higher level of pre-tax net investment losses in our general account as compared to the prior year quarter. Pre-tax net investment losses also include an unfavorable 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 decrease in the amortization of deferred policy acquisition and other costs. The decrease in income also reflects lower fee based revenues primarily due to market value declines in customer account values and assets under management. Partially offsetting these items was a benefit related to reserve releases for the guaranteed minimum death and income benefit features of our variable annuity products and lower amortization of deferred policy acquisition and other costs primarily due to market appreciation. 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. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for the three months ended June 30, 2009 of $1.20 per share of Common Stock decreased from $1.33 per share of Common Stock for the three months ended June 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 $11 million for the three months ended June 30, 2009, compared to $14 million for the three months ended June 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 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 Six Month Comparison. Income (loss) from continuing operations for the Financial Services Businesses decreased $150 million, from income of $667 million for the first six months of 2008 to income of $517 million for the first six months of 2009. Results for the current year include a higher level of pre-tax net investment losses in our general account as compared to the prior year. The decrease in income also reflects lower fee based revenues primarily due to market value declines in customer account values and assets under management. Partially offsetting these items was 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. 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. On a diluted per share basis, income from continuing operations attributable to the

Financial Services Businesses for the six months ended June 30, 2009 of $1.23 per share of Common Stock decreased from $1.49 per share of Common Stock for the six months ended June 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 $22 million for the six months ended June 30, 2009, compared to $26 million for the six months ended June 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 June 30, 2009, was a loss of $375 million, or $(193.00) per share of Class B Stock, compared to income of $15 million, or $0.50 per share of Class B Stock, for the three months ended June 30, 2008. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $11 million for the three months ended June 30, 2009, compared to $14 million for the three months ended June 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 Six Month Comparison. Income (loss) from continuing operations for the Closed Block Business for the six months ended June 30, 2009, was a loss of $356 million, or $(189.00) per share of Class B Stock, compared to income of $7 million, or $(9.50) per share of Class B Stock, for the six months ended June 30, 2008. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $22 million for the three months ended June 30, 2009, compared to $26 million for the three months ended June 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 SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, 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.

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues	$ 115	$ 622	$ 2,007	$ 1,195
Benefits and expenses	(317)	468	1,558	926
Adjusted operating income	432	154	449	269
Realized investment gains (losses), net, and related adjustments(1)	4	(52)	(18)	(105)
Related charges(1)(2)	(25)	15	(32)	32
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 411	$ 117	$ 399	$ 196

(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 $278 million, from $154 million in the second quarter of 2008 to $432 million in the second quarter of 2009. Adjusted operating income for the second quarter of 2009 included $416 million of benefits related to the quarterly 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. The $416 million of benefits included $328 million relating to the quarterly market performance adjustments and $88 million relating to the quarterly adjustments for current period experience, and were driven by market appreciation in the second quarter of 2009 as discussed below. Adjusted operating income for the second quarter of 2008 included $6 million of benefits related to the quarterly adjustments for current period experience. Partially offsetting these benefits was a $468 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, largely driven by a reduction to our adjustment for market-perceived non-performance risk as discussed below. A corresponding decrease in current period gross profits related to this unfavorable variance led to an offsetting decrease in the amortization of deferred policy acquisition and other costs of $416 million. In addition, fee income decreased, 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 over the twelve months ending June 30, 2009. The transfer of balances to our general account relates to an automatic rebalancing element in some of our living benefit features, which, as part of the overall product design, transferred approximately $5 billion of net investments out of the separate accounts and into our general account over the twelve months ended June 30, 2009, primarily 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 $328 million of benefits in the second quarter of 2009 relating to the quarterly market performance adjustments referred to above, including $233 million relating to releases of reserves for the guaranteed minimum death and income benefit features of our variable annuity products and $95 million relating to decreases to the amortization of deferred policy acquisition and other costs, reflect market performance related adjustments to our estimate of total gross profits to reflect actual fund performance in the second quarter of 2009. The actual rate of return on variable annuity account values for the second quarter of 2009 was 12.7% compared to our previously expected rate of return of 2.6%. In light of recent market conditions, 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 second 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 second quarter of 2009 was based upon our current 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, which is applied to all prior periods gross profits. The resulting cumulative adjustment to prior amortization is recognized in the current period. In addition, the lower rate of amortization will also be applied to future gross profits in calculating amortization in future periods which, all else being equal, will result in higher net profits in future periods.

We continue to derive our 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 second 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 10.5%, our current 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. 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 as discussed above, all else being equal, future quarterly rates of return higher or lower than 2.6% 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 referred to above reflect the cumulative 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 $88 million of benefits in the second quarter of 2009 relating to the quarterly adjustments for current period experience included a $47 million decrease to the amortization of deferred policy acquisition and other costs and $41 million relating to releases of reserves for the guaranteed minimum death and income benefit features of our variable annuity products. The adjustment for deferred policy acquisition and other costs reflects a reduction in amortization due to better than expected gross profits, resulting primarily from a favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features excluding the adjustment for non-performance risk, as described below, 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 primarily reflects higher than expected fee income as well as lower than expected actual contract guarantee claims costs in the second quarter of 2009.

The $468 million unfavorable 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 $474 million in the second quarter of 2009 compared to a charge of $6 million in the second quarter of 2008. The charge in the second quarter of 2009 includes $660 million related to a reduction in our adjustment to the embedded derivative liabilities for the market s perception of our non-performance risk. Under SFAS No. 157 we are required to incorporate our own risk of non-performance in the valuation of the embedded derivative liabilities associated with our living benefit features. To reflect our market-perceived non-performance risk, in addition to the risk premium inherent in the London Interbank Offered Rate (or LIBOR), we incorporate an additional spread over LIBOR into the discount rate used in the valuation of the embedded derivative liabilities. The reduction in the non-performance risk adjustment in the second quarter of 2009 was primarily driven by the application of this additional spread over LIBOR to an overall lower level of embedded derivative liabilities, resulting from the impact of improved market conditions and higher interest rates. A decrease in the additional spread over LIBOR in the second quarter 2009 also contributed to the reduction in our adjustment for market-perceived non-performance risk**.** For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, including the inputs for non-performance risk, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Variable Annuity Optional Living Benefit Features.

Excluding the $660 million charge related to our adjustment for market perceived non-performance risk, the capital markets hedging activities resulted in a $186 million benefit in second quarter of 2009, reflecting a $1,697 million benefit related to the change in the fair value of the embedded derivatives, partially offset by an $1,511 million charge related to the change in the fair value of the related hedge positions. This benefit was primarily driven by the out-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. The capital markets hedging activities for the second quarter of 2008 resulted in a $6 million charge, reflecting a $151 million charge related to the change in the fair value of the hedge positions, partially offset by a $145 million benefit related to the change in the fair value of the embedded derivatives. 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.

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 capital markets 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 capital markets 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 Six Month Comparison. Adjusted operating income increased $180 million, from $269 million in the first six months of 2008 to $449 million in the first six months of 2009. Included within this increase is a

$890 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 $664 million. Adjusted operating income for the first six months of 2009 also included $89 million of benefits related to the quarterly 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. The $89 million of benefits included $65 million relating to the quarterly adjustments for current period experience and $24 million relating to the quarterly market performance adjustments, and were driven by market appreciation in the first six months of 2009 as discussed below. Adjusted operating income for the first six months of 2008 included $9 million of charges related to the quarterly adjustments for current period experience. Partially offsetting these items 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 over the twelve months ended June 30, 2009. The transfer of balances to our general account relates to an automatic rebalancing element in some of our living benefit features, which, as part of the overall product design, transferred approximately $5 billion of investments out of the separate accounts and into our general account over the twelve months ended June 30, 2009, 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 $890 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 $844 million in the first six months of 2009 compared to a charge of $46 million in the first six months of 2008. The benefit in the first six months of 2009 includes $651 million of benefits related to updates of the inputs used in the valuation of the embedded derivative liabilities, including a $559 million benefit related to an update to reflect a market-perceived increase in our own risk of non-performance, and a $92 million benefit reflecting inclusion of new market inputs for implied volatility. 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. 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 Valuation of Variable Annuity Optional Living Benefit Features.

Excluding the $651 million of benefits related to updates of the inputs used in the valuation of the embedded derivatives associated with our living benefit features, the capital markets hedging activities resulted in a $193 million benefit in the first six months of 2009, reflecting a $1,788 million benefit related to the change in the fair value of the embedded derivatives, partially offset by an $1,595 million charge related to the change in the fair value of the related hedge positions. This benefit was primarily driven by the out-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. The capital markets hedging activities for the first six months of 2008 resulted in a $46 million charge, reflecting a $118 million charge related to the change in the fair value of the embedded derivatives, partially offset by a $72 million benefit related to the change in the fair value of the related hedge positions.

The quarterly adjustments for current period experience referred to above reflect the cumulative 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 $65 million of benefits in the first six months of 2009 relating to the quarterly adjustments for current period experience included $72 million relating to decreases to the amortization of deferred policy acquisition and other costs, partially offset by a $7 million charge relating to reserve increases for 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 six 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 primarily reflects higher than expected actual contract guarantee claims costs in the first six months of 2009 due to lower than expected lapses, partially offset by higher than expected fee income.

The $24 million of benefits in the first six months of 2009 from the quarterly market performance adjustments referred to above include $66 million relating to releases of reserves for the guaranteed minimum death and income benefit features of our variable annuity products, partially offset by charges of $42 million relating to increases to the amortization of deferred policy acquisition and other costs. These market performance related adjustments largely reflect updates to our estimate of total gross profits for better than expected actual fund performance in the first six months of 2009. Included within the $42 million increase in amortization of deferred policy acquisition and other costs 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 six 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, which is applied to all prior periods gross profits. The resulting cumulative adjustment to prior amortization is recognized in the current period.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $507 million, from $622 million in the second quarter of 2008 to $115 million in the second quarter of 2009. Policy charges and fees and asset management fees and other income decreased $587 million, including a $468 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, primarily driven by a reduction in our adjustment to the embedded derivative liabilities for market-perceived non-performance, as discussed above. In addition, fee income declined, driven by lower average variable annuity asset balances invested in separate accounts due to market depreciation over the twelve months ending June 30, 2009 and the transfer of balances to our general account relating to an automatic rebalancing element in some of our living benefit features. Partially offsetting these items, was a $77 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 Six Month Comparison. Revenues increased $812 million, from $1,195 million in the first six months of 2008 to $2,007 million in the first six months of 2009. Policy charges and fees and asset management fees and other income increased $621 million, including a $890 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 a decrease in fee income driven by lower average variable annuity asset balances invested in separate accounts due to market depreciation over the twelve months ending June 30, 2009 and the transfer of balances to our general account relating to an automatic rebalancing element in some of our living benefit features. In addition, net investment income increased $190 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 $785 million, from a charge of $468 million in the second quarter of 2008 to a benefit of $317 million in the second quarter of 2009. Absent the impact of the $410 million benefit related to higher quarterly adjustments for current period experience and market performance and the $416 million decrease 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 $826 million of the decrease, benefits and expenses increased $41 million. On this basis, interest credited to policyholders account balances increased $54 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 $33 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. Partially offsetting these increases was a $29 million decrease in general and administrative expenses, net of capitalization, absent the effect of the items mentioned above, and a $12 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 primarily reflecting the impact of lower gross profits due to the decrease in fee income. The decrease in interest expense reflects paydowns of inter-company debt, which were funded with affiliated capital contributions.

2009 to 2008 Six Month Comparison. Benefits and expenses increased $632 million, from $926 million in the first six months of 2008 to $1,558 million in the first six months of 2009. Absent the net impact of the $664 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 and the $98 million benefit related to higher quarterly adjustments for current period experience and market performance discussed above, which account for $566 million of the decrease, benefits and expenses increased $66 million. On this basis, interest credited to policyholders account balances increased $113 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 $60 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. Partially offsetting these increases was a $80 million decrease in general and administrative expenses, net of capitalization, absent the effect of the items mentioned above, and a $22 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 primarily reflecting the impact of lower gross profits due to the decrease in fee income. 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Variable Annuities(1):				
Beginning total account value	$ 57,942	$ 74,977	$ 60,007	$ 80,330
Sales	3,378	2,740	5,486	5,569
Surrenders and withdrawals	(1,315)	(2,185)	(2,758)	(4,358)
Net sales	2,063	555	2,728	1,211
Benefit payments	(236)	(262)	(492)	(556)
Net flows	1,827	293	2,236	655
Change in market value, interest credited and other activity	5,566	(246)	3,297	(5,655)
Policy charges	(236)	(317)	(441)	(623)
Ending total account value(2)	$ 65,099	$ 74,707	$ 65,099	$ 74,707
Fixed Annuities:				
Beginning total account value	$ 3,263	$ 3,440	$ 3,295	$ 3,488
Sales	41	24	96	41
Surrenders and withdrawals	(75)	(61)	(152)	(114)
Net redemptions	(34)	(37)	(56)	(73)
Benefit payments	(37)	(40)	(80)	(83)
Net flows	(71)	(77)	(136)	(156)
Interest credited and other activity	30	31	63	63
Policy charges	(1)		(1)	(1)
Ending total account value	$ 3,221	$ 3,394	$ 3,221	$ 3,394

(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 June 30, 2009, variable annuity account values are invested in equity funds ($21 billion or 32%), balanced funds ($17 billion or 26%), market value adjusted or fixed rate options ($13 billion or 20%), bond funds ($9 billion or 14%) and other ($5 billion or 8%).

2009 to 2008 Three Month Comparison. Total account values for fixed and variable annuities amounted to $68.3 billion as of June 30, 2009, an increase of $7.1 billion from March 31, 2009. The increase came primarily from increases in the market value of customers variable annuities due to equity market appreciation and, to a lesser extent, from positive variable annuity net flows. Total account values as of June 30, 2009 decreased $9.8 billion from June 30, 2008, primarily due to decreases in the market value of customers variable annuities due to significant equity market declines, partially offset by positive variable annuity net flows. Individual variable annuity gross sales increased by $638 million, from $2,740 million in the second quarter of 2008 to $3,378 million in the second quarter of 2009. The increase reflects increased sales of our optional living benefit product features, which benefited from competitor product modifications to increase pricing and scale back product features. While we have announced similar modifications which we will begin offering in the third quarter of 2009, we believe our product offering including these modifications will still be competitively positioned in relation to our competitors going forward. Individual variable annuity surrenders and withdrawals decreased by $870 million, from $2,185 million in the second quarter of 2008 to $1,315 million in the second quarter 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.

2009 to 2008 Six Month Comparison. Total account values for fixed and variable annuities amounted to $68.3 billion as of June 30, 2009, an increase of $5.0 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 June 30, 2009 decreased $9.8 billion from June 30, 2008, primarily due to decreases in the market value of customers variable annuities due to significant equity market declines, partially offset by positive variable annuity net flows. Individual variable annuity gross sales decreased by $83 million, from $5,569 million in the first six months of 2008 to $5,486 million in the first six months of 2009, reflecting the negative impact on sales of the market volatility and equity market decline experienced in the first quarter of 2009, partially offset by strong sales of our optional living benefit product features in the second quarter of 2009 as discussed above. Individual variable annuity surrenders and withdrawals decreased by $1.6 billion, from $4,358 million in the first six months of 2008 to $2,758 million in the first six 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 for 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 $38.7 billion, $33.1 billion and $37.1 billion as of June 30, 2009, December 31, 2008 and June 30, 2008, respectively. We segregate our variable annuity living benefit features into four broad product groupings based on our risk management strategies. The following table sets forth the account value and net amount at risk of our variable annuities with living benefit features based on these product grouping, as of the dates indicated.

	June 30, 2009		**December 31, 2008**		**June 30, 2008**	
Risk Management Strategy:	**Account Value**	**Net Amount at Risk**	**Account Value**	**Net Amount at Risk**	**Account Value**	**Net Amount at Risk**
			(in millions)			
Automatic rebalancing element and capital markets hedging	$ 15,309	$ 1,245	$ 9,655	$ 1,071	$ 6,833	$ 400
Automatic rebalancing element only	7,626	5	7,998	257	9,057	1
Capital markets hedging only	11,577	2,642	11,287	3,097	15,251	607
No automatic rebalancing element or capital markets hedging	4,184	1,644	4,114	1,876	5,958	759
Total variable annuity account values with living benefit features	$ 38,696	$ 5,536	$ 33,054	$ 6,301	$ 37,099	$ 1,767

The automatic rebalancing element included in the design of certain 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, depending on the product, to either a fixed general account option or a separate account bond portfolio. In certain situations, assets may transfer back when investment performance improves. The automatic rebalancing element is designed to limit our exposure to equity market risk and market volatility. Our latest offerings of optional living benefit features associated with variable annuity products all include an automatic rebalancing element, and we have discontinued the sale of optional living benefit features without an automatic rebalancing element. As of June 30, 2009 approximately 59% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 53% and 43% as of December 31, 2008 and June 30, 2008, respectively. As of June 30, 2009 approximately 23% 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 23% as of December 31, 2008 and June 30, 2008, respectively. In our capital markets hedging 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 our market exposures related to guaranteed minimum death and income benefits, which risks we previously retained. While the expansion of our hedging program did not have a material impact on our results in the second quarter of 2009, we will continue to assess the expansion of the hedging program over the next several quarters.

Our guaranteed minimum death benefits guarantee a minimum return on the contract value or an enhanced value, if applicable, to be used for purposes of determining benefits payable in the event of death. All of the $38.7 billion, $33.1 billion and $37.1 billion of variable annuity account values with living benefit features as of June 30, 2009, December 31, 2008 and June 30, 2008, respectively, also contain guaranteed minimum death benefits. An additional $22.8 billion, $23.3 billion and $32.9 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.

	June 30, 2009		December 31, 2008		June 30, 2008	
Risk Management Strategy:	**Account Value**	**Net Amount at Risk**	**Account Value**	**Net Amount at Risk**	**Account Value**	**Net Amount at Risk**
			(in millions)			
Automatic rebalancing element	$ 22,850	$ 1,328	$ 17,653	$ 1,698	$ 15,889	$ 535
No automatic rebalancing	38,632	12,248	38,733	14,404	54,100	5,247
Total variable annuity account values with guaranteed minimum death benefits	$ 61,482	$ 13,576	$ 56,386	$ 16,102	$ 69,989	$ 5,782

As of June 30, 2009 approximately 37% of variable annuity account values with guaranteed minimum death benefits included an automatic rebalancing element in the product design, compared to 31% and 23% as of December 31, 2008 and June 30, 2008, respectively. As of June 30, 2009 approximately 10% 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 9% as of December 31, 2008 and June 30, 2008, respectively.

Retirement

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues	$ 1,230	$ 1,207	$ 2,438	$ 2,474
Benefits and expenses	1,131	1,066	2,180	2,209
Adjusted operating income	99	141	258	265
Realized investment gains (losses), net, and related adjustments(1)	(401)	(256)	(719)	(435)
Related charges(2)	5	(1)	6	(4)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	575	(168)	772	(273)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(236)	139	(333)	182
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 42	$ (145)	$ (16)	$ (265)

(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 $42 million, from $141 million in the second quarter of 2008 to $99 million in the second quarter of 2009, reflecting a decrease in adjusted operating income for both our full service business and our institutional investment products business. The decline in our full service business was primarily driven by lower asset management fees, due to a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Also contributing to the decline was a $13 million unfavorable 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. This unfavorable variance is primarily driven by a reduction in our adjustment to reflect our market perceived non-performance risk in the fair value of the embedded derivative. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with these guaranteed minimum withdrawal benefits, including the inputs for non-performance risk, see Valuation of Assets and Liabilities Fair Value of Assets and

Liabilities Valuation of Variable Annuity Optional Living Benefit Features. Partially offsetting these declines in our full service business was an increase in investment results driven by higher average invested assets in our general account due to 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. The decrease in our institutional investment products business was driven by a decline in investment results and a lower benefit from reserve releases due to less favorable case experience related to our group annuity blocks of business. The decline in investment results was primarily due to lower net 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 are being maintained to provide additional capability to address changing cash needs during the current market conditions.

We have not evaluated the goodwill of the Retirement segment s full service business for impairment as of June 30, 2009, as no events occurred or circumstances changed during the second quarter of 2009 that would have more likely than not reduced the fair value of this business below its carrying amount. The carrying value of the Retirement segment s full service business goodwill was $444 million as of June 30, 2009. Market declines or other events impacting the fair value of this business, or increases in the level of equity required to support this business from what we had assumed, could result in an impairment of some or all of the goodwill associated with this business in future periods, resulting in a charge to General and administrative expenses.

2009 to 2008 Six Month Comparison. Adjusted operating income for the Retirement segment decreased $7 million, from $265 million in the first six months of 2008 to $258 million in the first six months of 2009, reflecting a decrease in adjusted operating income for our full service business, partially offset by higher results in our institutional investment products business. The decline in our full service business was primarily driven by lower asset management fees, due to a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Partially offsetting the decline in our full service business was an increase in investment results, driven by higher average invested assets in our general account due to 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. The increase in our institutional investment products business was driven by a greater benefit from reserve releases, including reserve refinements primarily reflecting updates of client census data, and improved investment results. The increase in investment results was primarily due to 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 offset by 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, as discussed above.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $23 million, from $1,207 million in the second quarter of 2008 to $1,230 million in the second quarter of 2009. Premiums increased $107 million, 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. Partially offsetting this increase was a $54 million decline in net investment income, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and 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, primarily driven by participant transfers from our equity based separate account products to our general account stable value products in our full service business, served as a partial offset to the decline in net investment income. Policy charges and fee income and asset management fees and other income decreased $30 million, primarily relating to a decline in asset management fees 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. The $13 million unfavorable 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 discussed above, also contributed to the decline. Partially offsetting these declines in policy charges and fee income and asset management fees and other income was $8 million of revenues in the second quarter of 2009 associated with the acquired operations of MullinTBG.

2009 to 2008 Six Month Comparison. Revenues decreased $36 million, from $2,474 million in the first six months of 2008 to $2,438 million in the first six months of 2009. Net investment income decreased $86 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and 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, primarily driven by participant transfers from our equity based separate account products to our general account stable value products in our full service business, served as a partial offset to the decline in net investment income. Policy charges and fee income and asset management fees and other income decreased $15 million, primarily relating to a decline in asset management fees 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 offsetting the decline in asset management fees was $20 million of revenues in the first six months of 2009 associated with the acquired operations of MullinTBG. Also serving as a partial offset was a $14 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. This favorable variance was primarily driven by a benefit related to an update of the inputs used in the valuation of the embedded derivative to incorporate a spread over LIBOR, reflecting a market-perceived increase in our own risk of non-performance. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with these guaranteed minimum withdrawal benefits, including the inputs for non-performance risk, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Variable Annuity Optional Living Benefit Features. Premiums increased $65 million, driven by higher life-contingent structured settlement sales, partially offset by lower single premium group annuity sales, and resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below.

Benefits and Expenses

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $65 million, from $1,066 million in the second quarter of 2008 to $1,131 million in the second quarter of 2009. Policyholders benefits, including the change in policy reserves, increased $96 million, primarily reflecting the increase in premiums discussed above, as well as less favorable case experience related to our group annuity blocks of business, partially offset by lower interest on lower general account policy reserves. In addition, general and administrative expenses, net of capitalization, increased $25 million, driven by expenses incurred to support several large client sales as well as $12 million of costs related to the acquired operations of MullinTBG, partially offset by the absence of costs related to an interim service agreement relating to the retirement business acquired from Union Bank of California, N.A., which were included in the second quarter of 2008. Partially offsetting these items was a $39 million decrease in interest credited to policyholders account balances, 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, 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. Interest expense decreased $13 million, reflecting lower interest rates on lower borrowings used to support investments.

2009 to 2008 Six Month Comparison. Benefits and expenses decreased $29 million, from $2,209 million in the first six months of 2008 to $2,180 million in the first six months of 2009. Interest credited to policyholders account balances decreased $84 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, 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 $31 million, reflecting lower interest rates on borrowings used to support investments. Partially offsetting these decreases, policyholders benefits, including the change in policy reserves, increased $42 million, primarily reflecting the increase in premiums discussed above, partially offset by an increased benefit from reserve releases, including reserve refinements primarily reflecting updates of client census data, and lower interest on lower general account policy reserves. General and administrative expenses, net of capitalization, increased $41 million, driven by expenses incurred to support several large client sales as well as $26 million of costs related to the acquired operations of MullinTBG, partially offset by the absence of costs related to an interim service agreement relating to the retirement business acquired from Union Bank of California, N.A., which were included in the first six months of 2008.

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 June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
	(in millions)			
Full Service(1):				
Beginning total account value	$ 102,159	$ 107,060	$ 99,738	$ 112,192
Deposits and sales	3,890	4,530	14,379	9,116
Withdrawals and benefits	(3,803)	(4,366)	(8,034)	(8,299)
Change in market value, interest credited and interest income	8,704	(307)	4,867	(6,092)
Ending total account value	$ 110,950	$ 106,917	$ 110,950	$ 106,917
Net additions (withdrawals)	$ 87	$ 164	$ 6,345	$ 817
Institutional Investment Products(2):				
Beginning total account value	$ 49,030	$ 51,667	$ 50,491	$ 51,591
Additions(3)	2,343	1,606	2,970	3,416
Withdrawals and benefits	(1,272)	(1,944)	(3,309)	(3,646)
Change in market value, interest credited and interest income	678	241	526	802
Other(4)	(1,304)	(57)	(1,203)	(650)
Ending total account value	$ 49,475	$ 51,513	$ 49,475	$ 51,513
Net additions (withdrawals)	$ 1,071	$ (338)	$ (339)	$ (230)

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $4.9 billion and $5.4 billion as of June 30, 2009 and 2008, respectively.

(2) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plan of $4.9 billion and $5.2 billion as of June 30, 2009 and 2008, respectively. Ending total account value for the institutional investments products business also includes $1.5 billion as of June 30, 2009 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and $1.9 billion and $3.4 billion as of June 30, 2009 and 2008, respectively, related to affiliated funding agreements issued using the proceeds from the sale of Prudential Financial retail medium-term notes. For additional information regarding the FHLBNY and the retail medium-term notes program see, Liquidity and Capital Resources.

(3) Additions includes $500 million for the three and six months ended June 30, 2009 representing transfers of externally managed client balances to accounts we manage. This addition is offset within Other, as there was no net impact on ending account values for this transfer.

(4) Other includes transfers from (to) the Asset Management segment of $115 million and $(91) million for the three and six months ended June 30, 2008, respectively. Other also includes $(500) million in the three and six months ended June 30, 2009, representing transfers of externally managed client balances to accounts we manage. This addition is offset within Additions, as there was no net impact on ending account values for this transfer. For the six months ended June 30, 2009, Other also includes $1,500 million representing collateralized funding agreements issued to the FHLBNY and for the three and six months ending June 30, 2009 includes $(507) million and $(1,522) million, respectively, representing terminations of affiliated funding agreements utilizing proceeds from the issuances to FHLBNY. Remaining amounts for all periods presented primarily represent changes in asset balances for externally-managed accounts.

2009 to 2008 Three Month Comparison. Account values in our full service business amounted to $111.0 billion as of June 30, 2009, an increase of $8.8 billion from March 31, 2009. The increase in account values was primarily driven by an increase in the market value of customer funds due to equity market appreciation. Account values in our full service business as of June 30, 2009 increased $4.0 billion from June 30, 2008, driven by $9.4 billion of net additions for the twelve months ended June 30, 2009, as well as the addition of $8.9 billion of account values related to the acquisition of MullinTBG, partially offset by a decrease in the market value of customer funds due to significant declines in the equity markets. Net additions decreased $77 million, from $164 million in the second quarter of 2008 to $87 million in the second quarter of 2009, primarily reflecting lower new plan sales, partially offset by lower plan lapses. Plan lapses in the second quarter of 2008 included $844 million of lapses relating to account values acquired from Union Bank of California, N.A. These lapses occurred during the final stages of the conversion of acquired account values to our systems platform, which was completed in the second quarter of 2008.

Account values in our institutional investment products business amounted to $49.5 billion as of June 30, 2009, an increase of $445 million from March 31, 2009, primarily reflecting net additions of $1.071 billion, driven by sales of our structured settlement and guaranteed investment products in the institutional markets, partially offset by net outflows from externally managed accounts. Account values in our institutional investment products business as of June 30, 2009 decreased $2.038 billion from June 30, 2008, primarily reflecting net withdrawals of $1.8 billion for the twelve months ended June 30, 2009, driven by the impact of scheduled withdrawals of our guaranteed investment products, as well as net outflows from externally managed accounts. Net additions (withdrawals) increased $1.409 billion, from net withdrawals of $338 million in the second quarter of 2008 to net additions of $1.071 billion in the second quarter of 2009. This increase reflects the impact of both higher additions and lower scheduled withdrawals of our guaranteed investment products. Sales of our retail notes and institutional notes have been negatively impacted by unfavorable capital markets conditions, in particular during the second half of 2008 and into the second quarter of 2009, as the stress experienced by global financial markets that began in the second half of 2007 continued. Rating agency downgrades to the claims-paying ratings of our insurance subsidiaries in the first quarter of 2009 could also have an adverse impact on sales of our guaranteed investment products in future periods.

2009 to 2008 Six Month Comparison. Account values in our full service business amounted to $111.0 billion as of June 30, 2009, an increase of $11.2 billion from December 31, 2008. The increase in account values was driven by both net additions of $6.3 billion and an increase in the market value of customer funds due to equity market appreciation. Account values in our full service business as of June 30, 2009 increased $4.0 billion from June 30, 2008, driven by $9.4 billion of net additions for the twelve months ended June 30, 2009, as well as the addition of $8.9 billion of account values related to the acquisition of MullinTBG, partially offset by a decrease in the market value of customer funds due to significant declines in the equity markets. Net additions increased $5.5 billion, from $817 million in the first six months of 2008 to $6.3 billion in the first six months of 2009, primarily reflecting higher new plan sales. New plan sales in the first six months of 2009 included a concentration of large client sales, including eight client sales over $100 million, totaling $5.8 billion, compared to five client sales over $100 million in the first six months of 2008, which totaled $1.4 billion.

Account values in our institutional investment products business amounted to $49.5 billion as of June 30, 2009, a decrease of $1.016 billion from December 31, 2008, reflecting net withdrawals of $338 million, driven by the impact of scheduled withdrawals of our guaranteed investment products, as well as net outflows from externally managed accounts. Account values in our institutional investment products business as of June 30, 2009 decreased $2.038 billion from June 30, 2008, primarily reflecting net withdrawals of $1.8 billion for the twelve months ended June 30, 2009, driven by the impact of scheduled withdrawals of our guaranteed investment products, as well as net outflows from externally managed accounts. Net withdrawals increased $109 million, from $230 million in the first six months of 2008 to $339 million in the first six months of 2009. This increase reflects the impact of lower sales of our guaranteed investment products, as discussed above.

Asset Management

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
		(in millions)		
Operating results:				
Revenues	$ 342	$ 564	$ 605	$ 1,112
Benefits and expenses	309	374	573	803
Adjusted operating income	33	190	32	309
Realized investment gains (losses), net, and related adjustments(1)	(19)	(10)	(25)	2
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	15	8	4	26
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 29	$ 188	$ 11	$ 337

(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) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relate to the equity interests of minority investors.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income decreased $157 million, from $190 million in the second quarter of 2008 to $33 million in the second quarter of 2009. Results of the segment s proprietary investing activities decreased $90 million primarily reflecting lower proprietary investing balances during the current period, and, to a lesser extent, lower returns on real estate investments. Investment results in a fixed income fund included income of $42 million in the second quarter of 2008, compared to income of $5 million in the second quarter of 2009. Our entire investment in the fixed income fund was redeemed as of June 30, 2009. Proprietary investing results for equity investments declined $28 million reflecting the exit of several equity investment funds in 2009. Real estate proprietary investing decreased $26 million, reflecting the impact of lower real estate values on co-investments and other seed investments.

Also contributing to the decrease in adjusted operating income was a decline of $48 million in the segment s commercial mortgage origination and servicing activities driven by an increase in interim loan loss reserves. Due to current market conditions and the inherent risk of these loans, the underwriting of new interim loans has been suspended. As of June 30, 2009, the principal balance of interim loans outstanding totaled $1.8 billion, which excludes $141 million of future fundings related to these loans that would need to be disbursed if the borrowers met the conditions for these fundings. As of June 30, 2009, these interim loans outstanding had a weighted average loan-to-value ratio of 109%, indicating that, in aggregate, the loan amount is greater than the collateral value, and a weighted average debt service coverage ratio of 1.26 times. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. These loans also had an allowance for losses or credit related market value losses totaling $150 million. Results in the second quarter of 2009 also reflect a decrease in asset management fees primarily from retail and institutional customer assets as a result of decreased asset values due to market depreciation, which more than offset net inflows of institutional and retail funds, in addition to lower transaction fees related to our real estate investment management activities. In addition, results for the second quarter of 2009 reflect lower income related to mutual fund service fees and securities lending activities. These declines were partially offset by a decrease in compensation costs.

2009 to 2008 Six Month Comparison. Adjusted operating income decreased $277 million, from $309 million in the first six months of 2008 to $32 million in the first six months of 2009. Results of the segment s proprietary investing activities decreased $105 million primarily reflecting lower returns on real estate investments, as well as lower proprietary investing balances during the current period. Real estate proprietary investing decreased $72 million reflecting the impact of lower real estate values on co-investments. Investment results in the fixed income fund included income of $8 million in the first six months of 2008, compared to losses of $11 million in the first six months of 2009. Our entire investment in the fixed income fund was redeemed as of June 30, 2009. Proprietary investing results for equity investments declined $16 million reflecting the exit of several equity investment funds in 2009. In addition, the segment s commercial mortgage origination and servicing activities decreased $51 million primarily driven by an increase in interim loan loss reserves. Results in 2009 also reflect a decrease in asset management fees primarily from retail and institutional customer assets as a result of decreased asset values due to market depreciation, as well as lower transaction and performance based incentive fees, primarily related to institutional real estate funds reflecting a decline in real estate values. In addition, results for the first six months of 2009 reflect lower income related to mutual fund service fees and securities lending activities. These declines were partially offset by a decrease in compensation costs.

Revenues

The following tables set forth the Asset Management segment s revenues, presented on a basis consistent with the table above under Operating Results, by type, asset management fees by source and assets under management for the periods indicated. In managing our business we analyze assets under management, which do not correspond to U.S. GAAP assets, because a principal source of our revenues are fees based on assets under management.

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Revenues by type:				
Asset management fees by source:				
Institutional customers	$ 126	$ 136	$ 245	$ 269
Retail customers(1)	62	85	118	166
General account	66	67	130	134
Total asset management fees	$ 254	$ 288	$ 493	$ 569
Incentive fees	14	10	(3)	82
Transaction fees	9	31	12	46
Proprietary investing	(13)	86	(43)	82
Commercial mortgage(2)	(22)	25	(13)	30
Total incentive, transaction, proprietary investing and commercial mortgage revenues	(12)	152	(47)	240
Service, distribution and other revenues(3)	100	124	159	303
Total revenues	$ 342	$ 564	$ 605	$ 1,112

(1) Consists of individual mutual funds and both variable annuities and variable life insurance asset management revenues from our separate accounts. This also includes funds invested in proprietary mutual funds through our defined contribution plan products. Revenues from fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in the general account.
(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.
(3) Includes payments from Wachovia Corporation under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wachovia Corporation. The agreement extends for ten years after termination of the joint venture. The revenue from Wachovia Corporation under this agreement was $16 million and $14 million in the three months ended June 30, 2009 and 2008, respectively, and $30 million and $28 million in the six months ended June 30, 2009 and 2008, respectively.

	June 30, 2009	June 30, 2008
	(in billions)	
Assets Under Management (at fair market value):		
Institutional customers(1)	$ 163.5	$ 179.3
Retail customers(2)	70.3	84.6
General account	175.6	175.0
Total	$ 409.4	$ 438.9

(1) Consists of third party institutional assets and group insurance contracts.
(2) Consists of individual mutual funds and both variable annuities and variable life insurance assets in our separate accounts. This also includes funds invested in proprietary mutual funds through our defined contribution plan products. Fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in the general account.

The following table sets forth the proprietary investments of the Asset Management segment at fair market value (including the value of derivative instruments used to mitigate equity market and currency risk) by asset class and source as of the dates indicated.

	June 30, 2009	June 30, 2008
	(in millions)	
Co-Investments:		
Real Estate	$ 300	$ 228
Fixed Income	2	492
Seed Investments:		
Real Estate	166	497
Public Equity	55	462
Fixed Income	31	53
Loans Secured by Investor Equity Commitments or Fund Assets:		
Real Estate secured by Investor Equity	38	835
Real Estate secured by Fund Assets	338	154
Total	$ 930	$ 2,721

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $222 million, from $564 million in the second quarter of 2008 to $342 million in the second quarter of 2009. Revenues from proprietary investing decreased $99 million primarily reflecting lower proprietary investing balances during the current period, driven by lower investment results in a fixed income fund, and the exiting of several equity fund investments in 2009. The decrease in proprietary investing revenues also reflected lower real estate proprietary investing, primarily from lower real estate values on co-investments and other seed investments. Commercial mortgage revenues decreased $47 million primarily as a result of additional interim loan loss reserves in the second quarter of 2009. Asset management fees decreased $34 million, primarily from the management of retail and institutional customer assets as a result of lower asset values due to market depreciation. Service, distribution and other revenues decreased $24 million primarily due to lower mutual fund service fees and assets under management, with a corresponding decrease in expense, as well as revenues related to securities lending activities. Also contributing to the decrease were lower revenues in certain consolidated real estate funds, which were fully offset by lower expenses related to noncontrolling interests in these funds.

2009 to 2008 Six Month Comparison. Revenues decreased $507 million, from $1.112 billion in the first six months of 2008 to $605 million in the first six months of 2009. Service, distribution and other revenues decreased $144 million primarily related to lower revenues in certain consolidated real estate funds, which were fully offset by lower expenses related to noncontrolling interests in these funds. In addition, service fee revenues declined primarily due to a change in the service fee arrangement with Wachovia Securities and lower assets under management, with a corresponding decrease in expense. The remainder of the decrease in service, distribution and other revenues includes lower mutual fund service fee revenues, as well as a decline in revenues related to securities lending activities. Revenues from proprietary investing decreased $125 million reflecting lower returns on real estate investments, as well as lower proprietary investing balances during the current period. Real estate proprietary investing revenues decreased primarily due to the impact of lower real estate values on co-investments. The decrease in proprietary investing revenues also reflected lower investment results in a fixed income fund and the exiting of several equity investment funds in 2009. In addition, incentive fees decreased $85 million primarily related to institutional real estate funds as a result of adverse real estate market conditions. A portion of these incentive based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of June 30, 2009, $133 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $123 million as of December 31, 2008. In the first six months of 2009, adjustments of

$25 million related to previously recognized incentive fees contributed to the decline in incentive fees resulting from fund performance. Asset management fees decreased $76 million, primarily from the management of retail and institutional customer assets as a result of lower asset values due to market depreciation. Commercial mortgage revenues decreased $43 million as a result of additional interim loan loss reserves in the first six months of 2009, as discussed above.

Expenses

2009 to 2008 Three Month Comparison. Expenses, as shown in the table above under Operating Results, decreased $65 million, from $374 million in the second quarter of 2008 to $309 million in the second quarter of 2009, driven by compensation costs primarily due to lower incentive compensation as a result of lower revenues, as well as lower headcount. In addition, expenses related to the decline in mutual fund service fee revenue and revenues associated with certain real estate funds decreased, as discussed above.

2009 to 2008 Six Month Comparison. Expenses decreased $230 million, from $803 million in the first six months of 2008 to $573 million in the first six months of 2009, driven by lower expenses related to the decline in mutual fund service fee revenue, incentive based fees, and revenues associated with certain real estate funds, as discussed above. In addition, compensation costs decreased primarily due to lower incentive compensation as a result of lower revenues, as well as lower headcount.

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues	$ 703	$ 676	$ 1,383	$ 1,356
Benefits and expenses	565	573	1,205	1,157
Adjusted operating income	138	103	178	199
Realized investment gains (losses), net, and related adjustments(1)	63	66	32	(70)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 201	$ 169	$ 210	$ 129

(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.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income increased $35 million, from $103 million in the second quarter of 2008 to $138 million in the second quarter of 2009. The increase in adjusted operating income reflects a net decrease in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves relating to current quarter experience, primarily reflecting the impact of more favorable equity markets on separate account fund performance, which was partially offset by an increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves reflecting the impact of unfavorable equity markets in late 2008 and early 2009 on variable product policy persistency. Favorable mortality experience, net of reinsurance, in the second quarter of 2009 compared to the second quarter of 2008 also contributed to the increase in adjusted operating income. The current quarter also benefited from higher earnings from growth in term and universal life insurance in force. Partially offsetting these items was a decrease in asset based fees due to lower separate account asset balances in comparison to the prior year quarter, reflecting the impact of the unfavorable equity markets in late 2008 and early 2009.

Amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves includes the impact of actual market performance on both actual profits and estimated future gross profits, used as the basis for amortizing deferred policy acquisition costs. We continue to derive our 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 second quarter of 2009, the projected future rate of return calculated using the reversion to the mean approach was greater than 10.9%, our current maximum future rate of return assumption across all asset types for this business. As a result, we utilized 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.

2009 to 2008 Six Month Comparison. Adjusted operating income decreased $21 million, from $199 million in the first six months of 2008 to $178 million in the first six months of 2009. The decrease in adjusted operating income reflects a decrease in asset based fees due to lower separate account asset balances reflecting the impact of the unfavorable equity markets in late 2008 and early 2009. Amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, was slightly higher than the prior year as an increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves reflecting the impact of unfavorable equity markets in late 2008 and early 2009 on variable product policy persistency was mostly offset by a decrease in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves relating to current quarter experience, primarily reflecting the impact of more favorable equity markets on separate account fund performance. Results in 2009 also reflect higher earnings from growth in term and universal life insurance in force, partially offset by losses on an investment in a real property separate account fund.

Amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves includes the impact of actual market performance on both actual profits and estimated future gross profits, used as the basis for amortizing deferred policy acquisition costs. We continue to derive our 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 second quarter of 2009, the projected future rate of return calculated using the reversion to the mean approach was greater than 10.9%, our current maximum future rate of return assumption across all asset types for this business. As a result, we utilized 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.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $27 million, from $676 million in the second quarter of 2008 to $703 million in the second quarter of 2009. Premiums increased $22 million, primarily due to increased premiums on term life insurance reflecting continued growth of our in force block of term insurance. Net investment income increased $18 million, reflecting higher asset balances primarily from the financing of regulatory requirements associated with statutory reserves for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits. Policy charges and fees and asset management fees and other income decreased $13 million, primarily reflecting lower asset based fees due to lower separate account asset balances reflecting the unfavorable impact of equity market performance in late 2008 and early 2009.

2009 to 2008 Six Month Comparison. Revenues increased $27 million, from $1,356 million in the first six months of 2008 to $1,383 million in the first six months of 2009. Premiums increased $34 million, primarily due to increased premiums on term life insurance reflecting continued growth of our in force block of term insurance. Net investment income increased $35 million, reflecting higher asset balances primarily from the financing of regulatory requirements associated with statutory reserves for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits, partially offset by losses on an investment in a real property separate account fund. Policy charges and fees and asset management fees and other income decreased $42 million, primarily reflecting lower asset based fees due to lower separate account asset balances reflecting the unfavorable impact of equity market performance in late 2008 and early 2009.

Benefits and Expenses

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $8 million, from $573 million in the second quarter of 2008 to $565 million in the second quarter of 2009. Amortization of deferred policy acquisition costs decreased $14 million, primarily reflecting the impact of more favorable equity markets on separate account fund performance partially offset by an increase in amortization reflecting the impact of unfavorable equity markets in late 2008 and early 2009 on variable product policy persistency. Policyholders benefits, including interest credited to policyholders account balances, increased $6 million, reflecting higher policyholder reserves from growth in our in force block of term insurance and an increase in interest credited to policyholders account balances due to growth in universal life account balances from increased policyholder deposits, partially offset by lower death claim costs.

2009 to 2008 Six Month Comparison. Benefits and expenses increased $48 million, from $1,157 million in the first six months of 2008 to $1,205 million in the first six months of 2009. Policyholders benefits, including interest credited to policyholders account balances, increased $43 million, reflecting an expected level of higher death claim costs and policyholder reserves associated with growth in our in force block of term insurance and an increase in interest credited to policyholders account balances due to growth in universal life account balances from increased policyholder deposits. Amortization of deferred policy acquisition costs increased $3 million, primarily reflecting the impact of unfavorable equity markets in late 2008 and early 2009 on variable product policy persistency, which was partially offset by a decrease in amortization primarily reflecting the impact of more favorable equity markets in the second quarter of 2009 on separate account fund performance.

Sales Results

The following table sets forth individual life insurance annualized new business premiums for the periods indicated. In managing our individual life insurance business, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP, because annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year excess premiums and deposits.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Annualized New Business Premiums(1):				
Excluding corporate-owned life insurance:				
Variable life	$ 5	$ 10	$ 9	$ 21
Universal life	32	22	60	39
Term life	61	52	113	103
Total excluding corporate-owned life insurance	98	84	182	163
Corporate-owned life insurance				
Total	$ 98	$ 84	$ 182	$ 163
Annualized new business premiums by distribution channel, excluding corporate-owned life insurance(1):				
Prudential Agents	$ 24	$ 29	$ 46	$ 57
Third party	74	55	136	106
Total	$ 98	$ 84	$ 182	$ 163

(1) The Individual Life sales measure was modified in the fourth quarter of 2008 to reflect annualized new business premiums, which represent annualized scheduled premiums plus 10% of excess (unscheduled) and single premiums from new sales. This new measure provides a more meaningful presentation of sales results and trends than the former measure, which included 100% of excess (unscheduled) or single premiums. Prior period amounts have been restated to conform to the current presentation.

2009 to 2008 Three Month Comparison. Sales of new life insurance, measured as described above, increased $14 million, from $84 million in the second quarter of 2008 to $98 million in the second quarter of 2009. The increase in sales is primarily due to a $10 million increase in sales of universal life products and a $9 million increase in term life product sales by the third party distribution channel, partially offset by a $5 million decrease in sales of variable life products by Prudential Agents. Sales from the third party distribution channel were $19 million higher than the prior year quarter due to higher sales of universal life products reflecting the impact of product repricing in the second half of 2008 as well as higher sales of term life products reflecting market disruptions for some of our competitors. In the second quarter of 2009, we increased universal life and term life prices, which could impact future sales. Sales by Prudential Agents were $5 million lower than the prior year quarter primarily due to lower sales of variable life products which were impacted by the unfavorable market conditions experienced in late 2008 and early 2009. The number of Prudential Agents decreased slightly from 2,446 at June 30, 2008 to 2,421 at June 30, 2009.

2009 to 2008 Six Month Comparison. Sales of new life insurance, measured as described above, increased $19 million, from $163 million in the first six months of 2008 to $182 million in the first six months of 2009. The increase in sales is primarily due to a $21 million increase in sales of universal life products and a $10 million increase in term life product sales primarily by the third party distribution channel, partially offset by a $12 million decrease in sales of variable life products by Prudential Agents. Sales from the third party distribution channel were $30 million higher than the first six months of 2008 due to higher sales of universal life products reflecting the impact of product repricing in the second half of 2008. Sales by Prudential Agents were

$11 million lower than the first six months of 2008 primarily due to lower sales of variable life products which were impacted by the unfavorable market conditions experienced in late 2008 and early 2009. The number of Prudential Agents decreased from 2,446 at June 30, 2008 to 2,421 at June 30, 2009.

Policy Surrender Experience

The following table sets forth the individual life insurance business policy surrender experience for variable and universal life insurance, measured by cash value of surrenders, for the periods indicated. These amounts do not correspond to expenses under U.S. GAAP. In managing this business, we analyze the cash value of surrenders because it is a measure of the degree to which policyholders are maintaining their in force business with us, a driver of future profitability. Generally, our term life insurance products do not provide for cash surrender values.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Cash value of surrenders	$ 236	$ 196	$ 493	$ 374
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	5.0%	3.5%	5.1%	3.2%

2009 to 2008 Three Month Comparison. The total cash value of surrenders increased $40 million, from $196 million in the second quarter of 2008 to $236 million in the second quarter of 2009, reflecting a greater volume of surrenders, including lapses to extended term, of variable life insurance in 2009 compared to the prior year quarter, due primarily to market conditions and policyholders electing to surrender their policies rather than make premium payments or make the contractually required deposits needed to keep the policies in force. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances increased from 3.5% in the second quarter of 2008 to 5.0% in the second quarter of 2009.

2009 to 2008 Six Month Comparison. The total cash value of surrenders increased $119 million, from $374 million in the first six months of 2008 to $493 million in the first six months of 2009, reflecting a greater volume of surrenders, including lapses to extended term, of variable life insurance in 2009 compared to the prior year, due primarily to market conditions and policyholders electing to surrender their policies rather than make premium payments or make the contractually required deposits needed to keep the policies in force. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances increased from 3.2% in the first six months of 2008 to 5.1% in the first six months of 2009.

Group Insurance

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues	$ 1,303	$ 1,218	$ 2,636	$ 2,475
Benefits and expenses	1,198	1,138	2,438	2,305
Adjusted operating income	105	80	198	170
Realized investment gains (losses), net, and related adjustments(1)	(86)	(116)	(185)	(203)
Related charges(2)	(2)		(4)	
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 17	$ (36)	$ 9	$ (33)

(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 interest credited to policyholders account balances.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income increased $25 million, from $80 million in the second quarter of 2008 to $105 million in the second quarter of 2009, reflecting higher underwriting earnings in both our group life and group disability businesses primarily due to more favorable claims experience. Partially offsetting this increase was higher operating expenses primarily related to business growth.

2009 to 2008 Six Month Comparison. Adjusted operating income increased $28 million, from $170 million in the first six months of 2008 to $198 million in the first six months of 2009, reflecting higher underwriting earnings in both our group life and group disability businesses primarily due to more favorable claims experience. Partially offsetting this increase was the benefit in the first six months of 2008 of a $20 million premium adjustment for updated data on a large group life insurance case. Also offsetting the increase in adjusted operating income was higher operating expenses primarily related to business growth.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased by $85 million, from $1.218 billion in the second quarter of 2008 to $1.303 billion in the second quarter of 2009. Group life premiums and policy charges and fee income increased by $39 million, from $810 million in the second quarter of 2008 to $849 million in the second quarter of 2009, primarily reflecting growth of business in force resulting from new sales and continued strong persistency. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $46 million from $225 million in the second quarter of 2008 to $271 million in the second quarter of 2009, primarily reflecting growth in business in force resulting from new sales and continued strong persistency.

2009 to 2008 Six Month Comparison. Revenues increased by $161 million, from $2.475 billion in the first six months of 2008 to $2.636 billion in the first six months of 2009. Group life premiums and policy charges and fee income increased by $103 million, from $1.603 billion in the first six months of 2008 to $1.706 billion in the first six months of 2009. This increase primarily reflects growth of business in force resulting from new sales, and strong persistency of 96% in the first six months of 2009 compared to 94% in the first six months of 2008. Partially offsetting the increase in group life premium is the premium adjustment recorded during the first six months of 2008 discussed above. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $56 million from $505 million in the first six months of 2008 to $561 million in the first six months of 2009. This increase primarily reflects growth of business in force resulting from new sales, and strong persistency of 94% in the first six months of 2009 compared to 90% in the first six months of 2008.

Benefits and Expenses

The following table sets forth the Group Insurance segment s benefits and administrative operating expense ratios for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Benefits ratio(1):				
Group life	87.3%	89.4%	87.6%	88.3%
Group disability	85.6	86.2	85.9	88.9
Administrative operating expense ratio(2):				
Group life	8.7	8.2	8.8	8.2
Group disability	18.1	22.3	18.0	19.6

(1) Ratio of policyholder benefits to earned premiums, policy charges and fee income. Group disability ratios include long-term care products.
(2) Ratio of administrative operating expenses (excluding commissions) to gross premiums, policy charges and fee income. Group disability ratios include long-term care products.

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $60 million, from $1.138 billion in the second quarter of 2008 to $1.198 billion in the second quarter of 2009. This increase reflects a $53 million increase in policyholders benefits, including the change in policy reserves, from $919 million in the second quarter of 2008 to $972 million in the second quarter of 2009, primarily due to growth of business in force, partially offset by more favorable claims experience in both our group life and group disability businesses. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth.

The group life benefits ratio improved 2.1 percentage points from the second quarter of 2008 to the second quarter of 2009, due to more favorable mortality experience. The group disability benefits ratio improved 0.6 percentage points from the second quarter of 2008 to the second quarter of 2009, due to more favorable claim experience. The group life administrative operating expense ratio was relatively unchanged from the second quarter of 2008 to the second quarter of 2009. The group disability administrative operating expense ratio improved from the second quarter of 2008 to the second quarter of 2009, as growth in the business outpaced the related increase in operating expenses.

2009 to 2008 Six Month Comparison. Benefits and expenses increased by $133 million, from $2.305 billion in the first six months of 2008 to $2.438 billion in the first six months of 2009. This increase reflects a $112 million increase in policyholders benefits, including the change in policy reserves, from $1.864 billion in the first six months of 2008 to $1.976 billion in the first six months of 2009, primarily due to growth of business in force, partially offset by more favorable claims experience in both our group life and group disability businesses. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth.

The group life benefits ratio improved 0.7 percentage points from the first six months of 2008 to the first six months of 2009, due to more favorable mortality experience. Excluding the impact of the premium adjustment discussed above, the group life benefits ratio improved approximately 1.8 percentage points. The group disability benefits ratio improved 3.0 percentage points from the first six months of 2008 to the first six months of 2009, due to more favorable claim experience. The group life administrative operating expense ratio was relatively unchanged from the first six months of 2008 to the first six months of 2009. The group disability administrative operating expense ratio improved from the first six months of 2008 to the first six months of 2009, as growth in the business outpaced the related increase in operating expenses.

Sales Results

The following table sets forth the Group Insurance segment s annualized new business premiums for the periods indicated. In managing our group insurance business, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP, because annualized new business premiums measure the current sales performance of the business unit, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income, in addition to current sales.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Annualized new business premiums(1):				
Group life	$ 35	$ 30	$ 245	$ 142
Group disability(2)	26	17	160	131
Total	$ 61	$ 47	$ 405	$ 273

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under our Servicemembers Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts, and include premiums from the takeover of claim liabilities.
(2) Includes long-term care products.

2009 to 2008 Three Month Comparison. Total annualized new business premiums increased $14 million, from $47 million in the second quarter of 2008 to $61 million in the second quarter of 2009. Group life sales increased $5 million due to increased large case sales to existing customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties, during the second quarter of 2009. Group disability sales increased $9 million due to increased sales to new customers and higher premiums associated with the assumption of existing liabilities from third parties during the second quarter of 2009.

2009 to 2008 Six Month Comparison. Total annualized new business premiums increased $132 million, from $273 million in the first six months of 2008 to $405 million in the first six months of 2009. Group life sales increased $103 million driven primarily by increased large case sales to both new and existing customers during the first six months of 2009. Group disability sales increased $29 million primarily due to increased sales to new and existing customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties during the first six months of 2009.

International Insurance and Investments Division

Impact of foreign currency exchange rate movements on earnings

As a U.S.-based company with significant business operations outside the U.S., we seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will reduce our U.S. dollar equivalent earnings. The operations of our International Insurance and International Investments segments are subject to currency fluctuations that can materially affect their U.S. dollar earnings from period to period even if earnings on a local currency basis are relatively constant. As discussed further below, we enter into forward currency derivative contracts, as well as dual currency and synthetic dual currency investments, as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar denominated earnings streams, thereby reducing earnings volatility from unfavorable and favorable foreign currency exchange rate movements.

Forward currency hedging program

The financial results of our International Insurance segment and International Investments segment, excluding the global commodities group, for all periods presented 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 are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency income hedging program designed to mitigate the risk that unfavorable exchange rate changes will reduce the segments U.S. dollar equivalent earnings. Pursuant to this program, Corporate and Other operations executes 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 specified exchange rates. 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. This program is primarily associated with the International Insurance segment s businesses in Japan, Korea and Taiwan and the International Investments segment s businesses in Korea and Europe. The intercompany arrangement with Corporate and Other operations increased (decreased) revenues and adjusted operating income of each segment as follows for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Impact on revenues and adjusted operating income:				
International Insurance	$	$ 1	$ (4)	$ 1
International Investments	1	1	4	1
Total International Insurance and Investments Division	$ 1	$ 2	$	$ 2

Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segments and the gains or losses recorded from the forward currency contracts that settled during the period, which includes the impact of any over or under hedge of actual earnings as a result of projected earnings differing from actual earnings. The consolidated net impact of this program recorded within the Corporate and Other operations were gains of $7 million and $1 million for the three months ended June 30, 2009 and 2008, respectively, and gains of $13 million and $2 million for the six months ended June 30, 2009 and 2008, respectively.

The notional amount of these forward currency contracts was $2.6 billion and $2.8 billion as of June 30, 2009 and December 31, 2008, respectively, of which $1.8 billion as of both June 30, 2009 and December 31, 2008 related to our Japanese insurance operations.

Dual currency and synthetic dual currency investments

In addition, our Japanese insurance operations also hold dual currency investments in the form of fixed maturities and loans. The principal of these dual currency investments are yen-denominated while the related interest income is U.S. dollar denominated. These investments are the economic equivalent of exchanging what would otherwise be fixed streams of yen-denominated interest income for fixed streams of U.S. dollars interest income. Our Japanese insurance operations also hold investments in yen-denominated investments that have been coupled with cross-currency coupon swap agreements, creating synthetic dual currency investments. The yen/U.S. dollar exchange rate is effectively fixed, as we are obligated in future periods to exchange fixed amounts of

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Japanese yen interest payments generated by the yen-denominated investments for U.S. dollars at the yen/U.S. dollar exchange rates specified by the cross-currency coupon swap agreements. As of both June 30, 2009 and December 31, 2008, the notional amount of these investments was ¥500 billion, or $4.4 billion, based upon the foreign currency exchange rates applicable at the time these investments were acquired. The weighted average yields generated by these investments were 2.7% for both the three and six months ended June 30, 2009 and 2.3% for both the three and six months ended June 30, 2008.

Presented below is the fair value of these instruments as reflected on our balance sheet for the periods presented.

	June 30, 2009	December 31, 2008
	(in millions)	
Cross-currency coupon swap agreements	$ (22)	$ 12
Foreign exchange component of interest on dual currency investments	(71)	(82)
Total	$ (93)	$ (70)

The table below presents as of June 30, 2009, the yen-denominated earnings subject to our dual currency and synthetic dual currency investments and the related weighted average exchange rates resulting from these investments.

Year	(1) Interest component of dual currency investments	Cross-currency coupon swap element of synthetic dual currency investments	Yen-denominated earnings subject to these investments	Weighted average exchange rate per U.S. Dollar
		(in billions)		(Yen per $)
Remainder of 2009	¥ 1.9	¥ 3.0	¥ 4.9	90.5
2010	3.6	5.0	8.6	88.2
2011	3.4	3.9	7.3	85.3
2012	3.1	2.9	6.0	83.0
2013-2034	33.3	53.5	86.8	79.3
Total	¥ 45.3	¥ 68.3	¥ 113.6	80.9

(1) Yen amounts are imputed from the contractual U.S. dollar denominated interest cash flows.

The present value of the earnings reflected in the table above, on a U.S. dollar denominated basis, is $1.0 billion as of June 30, 2009. The table above does not reflect the forward currency income hedging program discussed above. In establishing the level of yen-denominated earnings that will be hedged through the forward currency income hedging program we take into account the anticipated level of U.S. dollar denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of U.S. dollar denominated earnings that will be generated by U.S. dollar denominated products and investments, which are discussed in greater detail below.

Impact of foreign currency exchange rate movements on equity

Hedges of U.S. GAAP equity and available economic capital

We also seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will reduce our U.S. dollar equivalent equity in foreign subsidiaries through various hedging strategies. We are in the process of developing an economic capital framework, which includes available economic capital, as discussed in Liquidity and Capital Resources Prudential Financial Economic Capital, and as we further develop this framework, or as other events occur, we may alter this strategy. Available economic capital represents the excess of the fair value of assets over the fair value of liabilities for the current in force block of business. In our

Japanese insurance operations, we currently seek to hedge a portion of estimated available economic capital and other measures of value, including the amount attributable to the U.S. GAAP equity of our Japanese insurance operations, which totaled $5.2 billion as of June 30, 2009 excluding Accumulated other comprehensive income components of Stockholders Equity and certain other adjustments. We hedge the estimated available economic capital in our Japanese insurance operations through a variety of instruments, including U.S. dollar denominated assets. These assets are financed with yen-denominated liabilities and equity held in our Japanese insurance operations. In addition, we may also hedge estimated available economic capital using instruments held in our U.S. domiciled entities, such as U.S. dollar denominated debt that has been swapped to yen. In certain of our other foreign insurance operations, the U.S. GAAP equity exposure is mitigated by entering into forward currency contracts that generally qualify for hedge accounting treatment, and by holding U.S. dollar denominated investments. During the second quarter of 2009, we terminated our hedges of the U.S. GAAP equity exposure of our Korean operations due to a variety of considerations, including a desire to limit the potential for cash settlement outflows that would result from a strengthening Korean won.

As of June 30, 2009, the aggregate amount of the instruments serving as hedges of our estimated available economic capital in our Japanese insurance operations amounted to $6.9 billion, a decrease of $0.9 billion from the $7.8 billion hedged as of December 31, 2008. These instruments were principally comprised of available for sale U.S. dollar denominated investments with an amortized cost of $5.2 billion and held to maturity U.S. dollar denominated investments with an amortized cost of $0.8 billion held in our Japanese insurance operations, as well as $0.8 billion of net yen-denominated liabilities held in our U.S. domiciled entities, including a portion that has been converted to yen using swaps. The effects of the U.S. dollar denominated liabilities are reported in Corporate & Other operations. These amounts do not reflect the forward currency income hedging program or dual currency and synthetic dual currency investments discussed above, which when added to the $6.9 billion of instruments serving as an equity hedge of our estimated available economic capital, results in a total estimated available economic capital hedge of approximately $9.7 billion as of June 30, 2009.

Available for sale investments under U.S. GAAP are carried at fair value with unrealized changes in fair value (except as described below for impairments), including those from foreign currency exchange rate movements, recorded as unrealized gains or losses in Accumulated other comprehensive income within Equity. Changes in the U.S. GAAP equity of our Japanese insurance operations due to foreign currency exchange rate movements are also recorded in Accumulated other comprehensive income as Foreign currency translation adjustments, and can serve as an offset to the unrealized changes in the fair value of the available for sale investments. For the portion of available for sale investments that support our Japanese insurance operations U.S. GAAP equity this offset creates a natural equity hedge. For those U.S. dollar denominated investments, including available for sale investments, that support the portion of estimated available economic capital above our U.S. GAAP equity there is no offsetting impact to equity. In addition, the impact of foreign currency exchange rate movements on the U.S. GAAP equity of our Japanese insurance operations is partially offset by foreign currency exchange related changes in designated Yen-denominated debt and other hedging instruments within Foreign currency translation adjustments.

The investments designated as held to maturity under U.S. GAAP are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements, with the related change in value recorded within Asset management fees and other income. The remeasurement related to the change in value for foreign currency exchange rate movements for these investments is excluded from adjusted operating income, as part of our application of the hedge of available economic capital.

The U.S. dollar denominated investments that hedge a portion of our estimated available economic capital in our Japanese insurance operations pay a coupon, which is reflected within Net investment income, and, therefore, included in adjusted operating income, which is approximately 200 to 300 basis points greater than what a similar yen-based investment would pay. The incremental impact of this higher yield will vary over time, and is dependent on the duration of the underlying investment, as well as interest rate environments in the U.S. and Japan at the time of the investment. See Realized Investment Gains and Losses and General Account

Investments General Account Investments Investment Results for a discussion of the investment yields generated by our Japanese insurance operations.

Because these U.S. dollar denominated investments are recorded on the books of yen-based entities, foreign currency exchange movements will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar denominated investments will decrease as a result of changes in the foreign currency exchange rates. Upon the ultimate sale or maturity of the U.S. dollar denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized gains (losses), net within the income statement and, excluded from adjusted operating income. Similarly, other-than-temporary impairments on these investments may include the impact of changes in foreign currency exchange rates, which in certain circumstances will be included in Realized gains (losses), net within the income statement, and, as such, excluded from adjusted operating income. See Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities for a discussion of our policies regarding impairments.

In 2008, we began incorporating the impact of foreign currency exchange rate movements on the remaining U.S. dollar denominated net asset position of our Japanese insurance operations, which primarily relates to accrued investment income, as part of our overall application of the hedge of available economic capital. These U.S. dollar denominated assets and liabilities are remeasured for foreign currency exchange rate movements, as they are non-yen denominated items on the books of yen-based entities, and the related change in value is recorded within Asset management fees and other income. As these U.S. dollar denominated assets and liabilities are included in the determination of the Japanese insurance operations level of available economic capital, we exclude all remeasurement related to these items from adjusted operating income.

In addition, as of June 30, 2009 and December 31, 2008, our international insurance operations had $7.0 billion and $6.2 billion, respectively, of foreign currency exposure from U.S. dollar liabilities for U.S. dollar denominated products issued by these operations. A portion of these liabilities are coinsured to our U.S. domiciled insurance operations and supported by U.S. dollar denominated assets. For the U.S. dollar liabilities retained in Japan, our Japanese operations hold U.S. dollar denominated investments, including a significant portion that are designated as available for sale, and other related U.S. dollar denominated net assets, primarily accrued investment income, to support these products. The change in value due to changes in foreign currency exchange rate movements, or remeasurement, of the related U.S. dollar denominated assets and liabilities associated with these products is excluded from adjusted operating income.

International Insurance

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including, for constant dollar information discussed below. The exchange rates used for 2009 and 2008 were Japanese yen at a rate of 106 yen per U.S. dollar and Korean won at a rate of 950 won per U.S. dollar. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating results:				
Revenues:				
Life Planner operations	$ 1,539	$ 1,489	$ 3,181	$ 3,066
Gibraltar Life	994	840	1,889	1,588
	2,533	2,329	5,070	4,654
Benefits and expenses:				
Life Planner operations	1,224	1,203	2,572	2,495
Gibraltar Life	844	673	1,608	1,293
	2,068	1,876	4,180	3,788
Adjusted operating income:				
Life Planner operations	315	286	609	571
Gibraltar Life	150	167	281	295
	465	453	890	866
Realized investment gains (losses), net, and related adjustments(1)	(320)	(307)	(777)	(375)
Related charges(1)(2)	17	27	69	
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	111	45	59	(112)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(111)	(45)	(59)	112
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	1	1	3	2
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 163	$ 174	$ 185	$ 493

(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 and the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(2) Benefits and expenses exclude related charges that represent the element of Dividends to policyholders that is based on a portion of certain realized investment gains required to be paid to policyholders and the impact of Realized investment gains (losses), net, on 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.

(5) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

On May 1, 2009, our 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 June 30, 2009, the Statement of Financial Position of Prudential Financial reflects $2.3 billion of assets and $2.3 billion of liabilities related to Yamato. Subsequent to the acquisition, we renamed the acquired company Prudential Financial of Japan Life Insurance Company Ltd.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income from Life Planner operations increased $29 million, from $286 million in the second quarter of 2008 to $315 million in the second quarter of 2009, including a $3 million unfavorable impact of currency fluctuations. Excluding the impact of currency fluctuations and the benefit recognized in the second quarter of 2008 of $13 million for the reversal of charges recorded in prior periods related to lapsed policies, adjusted operating income increased $45 million from the second quarter of 2008 to the second quarter of 2009. This increase primarily reflects a $25 million benefit in the second quarter of 2009 from the continuing migration to a new policy valuation system that resulted in favorable refinements that mostly benefited our Japanese Life Planner operations in the current period. We anticipate completing this initiative in 2010. Adjusted operating income also benefited from the continued growth of our Japanese Life Planner operation.

Gibraltar Life s adjusted operating income decreased $17 million, from $167 million in the second quarter of 2008 to $150 million in the second quarter of 2009, with no impact from currency fluctuations. This decrease in adjusted operating income is primarily due to a decline in expense and other margins, including a detriment of $7 million in the second quarter of 2009 from the continuing migration to a new policy valuation system that resulted in unfavorable refinements in the current period.

2009 to 2008 Six Month Comparison. Adjusted operating income from Life Planner operations increased $38 million, from $571 million in the first six months of 2008 to $609 million in the first six months of 2009, including a $4 million unfavorable impact of currency fluctuations. Excluding the impact of currency fluctuations and the benefit recognized in the first six months of 2008 of $13 million for the reversal of charges recorded in prior periods related to lapsed policies, adjusted operating income increased $55 million from the first six months of 2008 to the first six months of 2009. This increase primarily reflects the continued growth of our Japanese Life Planner operation, as well as improved investment income margins. The improved investment income margins primarily reflect higher investment yields and investment portfolio growth. In addition, adjusted operating income benefited by $25 million in the first six months of 2009 due to the migration to a new policy valuation system discussed above. Partially offsetting these items was higher general and administrative expenses, as discussed below, and increased amortization of deferred policy acquisition costs reflecting slightly less favorable persistency and unfavorable market conditions.

Gibraltar Life s adjusted operating income decreased $14 million, from $295 million in the first six months of 2008 to $281 million in the first six months of 2009, with no impact from currency fluctuations. This decrease in adjusted operating income is due to a decline in expense and other margins, which reflects higher general and administrative expenses, as well as a detriment of $7 million in the first six months of 2009 due to the migration to a new policy valuation system as discussed above. Offsetting these decreases were more favorable mortality experience than that of the prior year period and improved investment income margins.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $204 million, from $2.329 billion in the second quarter of 2008 to $2.533 billion in the second quarter of 2009, including a net favorable impact of $7 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $197 million, from $2.313 billion in the second quarter of 2008 to $2.510 billion in the second quarter of 2009.

Revenues from our Life Planner operations increased $50 million, from $1.489 billion in the second quarter of 2008 to $1.539 billion in the second quarter of 2009, including a net unfavorable impact of currency fluctuations of $38 million. Excluding the impact of currency fluctuations, revenues increased $88 million from the second quarter of 2008 to the second quarter of 2009. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $66 million, from $1.224 billion in the second quarter of 2008 to $1.290 billion in the second quarter of 2009. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $56 million, from $850 million in the second quarter of 2008 to $906 million in the second quarter of 2009, primarily reflecting growth of business in force from new sales and continued strong persistency. Also reflected in the increase in premiums and policy charges and fee income is the benefit from the migration to a new policy valuation system discussed above. Net investment income also increased $25 million, from $235 million in the second quarter of 2008 to $260 million in the second quarter of 2009, primarily due to investment portfolio growth.

Revenues from Gibraltar Life increased $154 million, from $840 million in the second quarter of 2008 to $994 million in the second quarter of 2009, including a favorable impact from currency fluctuations of $45 million. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $109 million from the second quarter of 2008 to the second quarter of 2009. This increase reflects a $99 million increase in premiums, from $557 million in the second quarter of 2008 to $656 million in the second quarter of 2009, primarily driven by an increase in single premium whole life sales in the current quarter.

2009 to 2008 Six Month Comparison. Revenues increased $416 million, from $4.654 billion in the first six months of 2008 to $5.070 billion in the first six months of 2009, including a net favorable impact of $90 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $326 million, from $4.649 billion in the first six months of 2008 to $4.975 billion in the first six months of 2009.

Revenues from our Life Planner operations increased $115 million, from $3.066 billion in the first six months of 2008 to $3.181 billion in the first six months of 2009, including a net unfavorable impact of currency fluctuations of $76 million. Excluding the impact of currency fluctuations, revenues increased $191 million from the first six months of 2008 to the first six months of 2009. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $125 million, from $2.543 billion in the first six months of 2008 to $2.668 billion in the first six months of 2009. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $107 million, from $1.794 million in the first six months of 2008 to $1.901 million in the first six months of 2009, primarily reflecting growth of business in force from new sales and continued strong persistency. Net investment income also increased $61 million, from $463 million in the first six months of 2008 to $524 million in the first six months of 2009, primarily due to investment portfolio growth.

Revenues from Gibraltar Life increased $301 million, from $1.588 billion in the first six months of 2008 to $1.889 billion in the first six months of 2009, including a favorable impact from currency fluctuations of $166 million. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $135 million from the first six months of 2008 to the first six months of 2009. This increase principally reflects a $102 million increase in premiums, from $1.082 billion in the first six months of 2008 to $1.184 billion in the first six months of 2009, primarily driven by an increase in single premium whole life sales in the second quarter of 2009. This increase in revenues also reflects an $18 million increase in net investment income, from $472 million in the first six months of 2008 to $490 million in the first six months of 2009, primarily due to the continued growth of our U.S. dollar denominated fixed annuity product.

Due to the long-term nature of many of the products we sell in Japan, we have historically sought to add duration exposure to our Japanese investment portfolio by employing various strategies, including investing in longer-term securities or, by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities, and have resulted in higher portfolio yields. Based on an evaluation of recent market conditions, beginning in the fourth quarter of 2008 and continuing into the first quarter of 2009, we terminated or offset many of these interest rate swaps in consideration of, among other things, the interest rate environment. The resulting realized investment gains from terminating or offsetting these interest rate swaps will be recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives. For the three months ended June 30, 2009 and 2008 we recognized gains of $7 million and losses of $6 million, respectively, and for the six months ended June 30, 2009 and 2008 we recognized gains of $13 million and losses of $8 million, respectively, in adjusted operating income related to these realized investment gains (losses). As of June 30, 2009, $767 million of deferred gains remain to be recognized in adjusted operating income over a weighted average period of 32 years. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and we expect to resume implementing strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions changes. As we do so, the impact to our portfolio yields upon the resumption of these strategies will depend on the then current interest rate environment.

Benefits and Expenses

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $192 million, from $1.876 billion in the second quarter of 2008 to $2.068 billion in the second quarter of 2009, including a net unfavorable impact of $10 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $182 million, from $1.847 billion in the second quarter of 2008 to $2.029 billion in the second quarter of 2009.

Benefits and expenses of our Life Planner operations increased $21 million, from $1.203 billion in the second quarter of 2008 to $1.224 billion in the second quarter of 2009, including a net favorable impact of $35 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $56 million from the second quarter of 2008 to the second quarter of 2009. Benefits and expenses of our Japanese Life Planner operation increased $48 million from $782 million in the second quarter of 2008 to $830 million in the second quarter of 2009, primarily reflecting an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force.

Gibraltar Life s benefits and expenses increased $171 million, from $673 million in the second quarter of 2008 to $844 million in the second quarter of 2009, including a net unfavorable impact of currency fluctuations of $45 million. Excluding the impact of currency fluctuations, benefits and expenses increased $126 million from the second quarter of 2008 to the second quarter of 2009. This increase primarily reflects an increase in policyholder benefits, including changes in reserves, of $87 million due to higher single premium whole life sales in the current quarter.

2009 to 2008 Six Month Comparison. Benefits and expenses increased $392 million, from $3.788 billion in the first six months of 2008 to $4.180 billion in the first six months of 2009, including a net unfavorable impact of $94 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $298 million, from $3.763 billion in the first six months of 2008 to $4.061 billion in the first six months of 2009.

Benefits and expenses of our Life Planner operations increased $77 million, from $2.495 billion in the first six months of 2008 to $2.572 billion in the first six months of 2009, including a net favorable impact of $72 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $149 million from the first six months of 2008 to the first six months of 2009. Benefits and expenses of our Japanese Life Planner operation increased $117 million from $1.664 billion in the first six months of 2008 to $1.781 billion in the first six months of 2009, primarily reflecting an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force. Also contributing to the increase in benefits and expenses was higher general and administrative expenses and increased amortization of deferred policy acquisition costs reflecting slightly less favorable persistency and unfavorable market conditions. Reflected in the higher general and administrative expenses is $10 million of expenses recorded in the first six months of 2009 for the Life Planner operations related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Gibraltar Life s benefits and expenses increased $315 million, from $1.293 billion in the first six months of 2008 to $1.608 billion in the first six months of 2009, including a net unfavorable impact of currency fluctuations of $166 million. Excluding the impact of currency fluctuations, benefits and expenses increased $149 million from the first six months of 2008 to the first six months of 2009. This increase reflects an increase in policyholder benefits, including changes in reserves, of $77 million reflecting higher single premium whole life sales in the second quarter of 2009, partially offset by more favorable mortality experience than that of the prior year period. Also contributing to this increase is higher amortization of deferred policy acquisition costs related to the continued growth of our U.S. dollar denominated fixed annuity product and the increase in single premium whole life sales, as well as higher general and administrative expenses.

We continue to estimate that we will incur approximately $60 million of non-capitalizable costs in 2009 related to our on-going initiative in Japan discussed above, with the vast majority of these expenditures to be recognized in our Gibraltar Life operations during the second half of 2009.

Sales Results

In managing our international insurance business, we analyze revenues, as well as annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the segment, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year premiums or deposits from single pay products. Annualized new business premiums on an actual and constant exchange rate basis are as follows for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Annualized new business premiums:				
On an actual exchange rate basis:				
Life Planner operations	$ 181	$ 188	$ 401	$ 423
Gibraltar Life	147	148	260	242
Total	$ 328	$ 336	$ 661	$ 665
On a constant exchange rate basis:				
Life Planner operations	$ 184	$ 188	$ 408	$ 421
Gibraltar Life	139	147	244	243
Total	$ 323	$ 335	$ 652	$ 664

2009 to 2008 Three Month Comparison. On a constant exchange rate basis, annualized new business premiums declined $12 million, from $335 million in the second quarter of 2008 to $323 million in the second quarter of 2009.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased $4 million, as lower sales in Japan mostly reflective of the current economic environment were partially offset by higher sales in both Korea and Taiwan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation decreased $8 million, reflecting lower sales of U.S. dollar denominated fixed annuity products in both our Life Advisor and bank distribution channels. This decline was partially offset by sales of the recently introduced Australian dollar denominated fixed annuity product and higher sales of life products in the bank distribution channel.

2009 to 2008 Six Month Comparison. On a constant exchange rate basis, annualized new business premiums declined $12 million, from $664 million in the first six months of 2008 to $652 million in the first six months of 2009.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased $13 million, due to lower sales in Japan and Korea mostly reflective of the current economic environment.

The number of Life Planners increased by 196, or 3%, from 6,179 as of June 30, 2008 to 6,375 as of June 30, 2009, driven by increases of 103 in Taiwan, 78 in Brazil and 69 in Korea. During the same period, the number of Life Planners in Japan decreased by 92, reflective of the transfer of 177 Life Planners to Gibraltar, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Life Planners would have increased 6%, from June 30, 2008 to June 30, 2009. Prior to June 30, 2008, an additional 105 Japanese Life Planners were transferred to Gibraltar.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $1 million, reflecting sales of the recently introduced multi-currency denominated fixed annuity product and higher sales of life products in the bank distribution channel. Mostly offsetting these increases were lower sales of U.S. dollar denominated fixed annuity products in both our Life Advisor and bank distribution channels.

The number of Life Advisors increased by 477, or 8%, from 5,899 as of June 30, 2008 to 6,376 as of June 30, 2009, as both the first quarter and second quarter of 2009 included two hiring cycles. The increase in Life Advisors includes 55 of the Life Planners transferred to Gibraltar, as discussed above. The remaining transferees are not considered Life Advisors.

Investment Margins and Other Profitability Factors

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at mandated guaranteed interest rates. Authorities in some jurisdictions regulate interest rates guaranteed in our insurance contracts. The regulated guaranteed interest rates do not necessarily match the actual returns on the underlying investments. The spread between the actual investment returns and these guaranteed rates of return to the policyholder is an element of the profit or loss that we will experience on these products. With regulatory approval, guaranteed rates may be changed on new business. While these actions enhance our ability to set rates commensurate with available investment returns, the major sources of profitability on our products, other than those sold by Gibraltar Life, are margins on mortality, morbidity and expense charges rather than investment spreads.

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the first six months of 2009 and the first six months of 2008 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

International Investments

Operating Results

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Operating results:				
Revenues	$ 108	$ 148	$ 209	$ 318
Expenses	92	122	183	267
Adjusted operating income	16	26	26	51
Realized investment gains (losses), net, and related adjustments(1)				3
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	(11)	(5)	(19)	(14)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 5	$ 21	$ 7	$ 40

(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) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

In 2004, we acquired an 80 percent interest in Hyundai Investment and Securities Co., Ltd., a Korean asset management firm, from an agency of the Korean government. We subsequently renamed the company Prudential Investment & Securities Co., Ltd, or PISC. On January 25, 2008, we acquired the remaining 20 percent for $90 million and PISC is now a wholly owned operation.

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

On July 1, 2008, we acquired a 40 percent interest in GAP Asset Management of Brazil, which we account for under the equity method as an operating joint venture.

On May 25, 2009, we entered into an agreement with Mexican financial services group Grupo Actinver SA to sell our mutual fund and banking operations in Mexico. As a result, we have reflected these operations as discontinued operations for all periods presented as of June 30, 2009. This transaction is subject to regulatory approval and is expected to close in the third quarter of 2009. This transaction does not include our insurance business, our pension fund business or our real estate investments that are located in Mexico. Income (loss) from discontinued operations reflects \$(1) million and \$0 million for the three months ended June 30, 2009 and 2008, respectively, and \$(1) million and \$1 million for the six months ended June 30, 2009 and 2008, respectively, related to these operations.

Adjusted Operating Income

2009 to 2008 Three Month Comparison. Adjusted operating income decreased $10 million, from $26 million in the second quarter of 2008 to $16 million in the second quarter of 2009. This decrease reflects lower results from the segment s Korean asset management operation, primarily due to a decline in asset based fees and the culmination of the agreement with the Korean government discussed below. Also contributing to the decline in adjusted operating income was less favorable sales and trading results from the segment s global commodities group. The adjusted operating income of our Korean asset management operation includes $4 million in the second quarter of 2008 of fee revenue from the Korean government under an agreement entered into in connection with the acquisition of PISC, related to the provision of asset management and brokerage services, which agreement ended on February 27, 2009.

2009 to 2008 Six Month Comparison. Adjusted operating income decreased $25 million, from $51 million in the first six months of 2008 to $26 million in the first six months of 2009. This decrease reflects lower results from the segment s Korean asset management operation, primarily due to a decline in asset based fees and the culmination of the agreement with the Korean government discussed above. The segment s global commodities group also contributed to the decline in adjusted operating income, as less favorable sales and trading results and a lower benefit from market value changes on securities relating to exchange memberships in the first six months of 2009, were partially offset by a $19 million credit loss related to a brokerage client that was recorded in the first six months of 2008. The adjusted operating income of our Korean asset management operation includes fee revenue from the Korean government under the agreement discussed above of $3 million and $9 million in the first six months of 2009 and 2008, respectively.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $40 million, from $148 million in the second quarter of 2008 to $108 million in the second quarter of 2009, primarily reflecting lower revenues in the Korean asset management operation and the global commodities group.

2009 to 2008 Six Month Comparison. Revenues decreased $109 million, from $318 million in the first six months of 2008 to $209 million in the first six months of 2009, primarily reflecting lower revenues in the Korean asset management operation and the global commodities group.

Expenses

2009 to 2008 Three Month Comparison. Expenses, as shown in the table above under Operating Results, decreased $30 million, from $122 million in the second quarter of 2008 to $92 million in the second quarter of 2009, primarily reflecting lower expenses corresponding with the lower level of revenues generated by the Korean asset management operation and the global commodities group.

2009 to 2008 Six Month Comparison. Expenses decreased $84 million, from $267 million in the first six months of 2008 to $183 million in the first six months of 2009, primarily reflecting lower expenses corresponding with the lower level of revenues generated by the Korean asset management operation and the global commodities group.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and real estate and relocation services.

Corporate operations consist primarily of: (1) investment returns on capital that is not deployed in any business segments; (2) returns from investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax-enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities and deferred compensation; (6) certain retained obligations relating to policyholders whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation; (7) businesses that we have placed in wind-down status but have not divested; and (8) the impact of transactions with other segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating Results:				
Corporate Operations:				
Net investment income, net of interest expense, excluding capital debt interest expense	$ 21	$ 63	$ 29	$ 131
Capital debt interest expense	(123)	(63)	(236)	(128)
Pension income and employee benefits	52	67	100	132
Other corporate activities	(115)	(84)	(161)	(180)
Total Corporate Operations(1)	(165)	(17)	(268)	(45)
Real Estate and Relocation Services	3	(3)	(60)	(26)
Adjusted operating income	(162)	(20)	(328)	(71)
Realized investment gains (losses), net, and related adjustments(2)	(113)	148	110	(9)
Investment gains on trading account assets supporting insurance liabilities, net(1)(3)				
Divested businesses(4)	(24)	10	(56)	(57)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	9	(36)	29	(82)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (290)	$ 102	$ (245)	$ (219)

(1) Includes consolidating adjustments.
(2) 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.
(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) See Divested Businesses.
(5) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

2009 to 2008 Three Month Comparison. Adjusted operating income decreased $142 million, from a loss of $20 million in the second quarter of 2008 to a loss of $162 million in the second quarter of 2009. Adjusted operating income from corporate operations decreased $148 million, from a loss of $17 million in the second quarter of 2008 to a loss of $165 million in the second quarter of 2009, primarily due to increased interest expense on capital debt and lower investment earnings. Capital debt interest expense increased $60 million due

to a greater level of capital debt, which includes the issuance in June 2008 of $1.5 billion of junior subordinated notes and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes in 2009. Previously, these proceeds were used to support an asset portfolio within the Retirement segment for which the Company has employed a substitute funding source, as discussed in Liquidity and Capital Resources Financing Activities. Investment income, net of interest expense, excluding capital debt interest expense, decreased $42 million, primarily reflecting lower earnings from the investment of proceeds from our convertible debt issuances, as discussed below, as well as other borrowings, and lower yields on cash and other invested assets. Also contributing to the greater loss in adjusted operating income in 2009 are increased losses from other corporate activities, which reflects an increase in our deferred compensation liabilities and other retained corporate expenses, which was partially offset by a decline in the level of costs related to our retained obligations to certain policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practice remediation. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by changes in equity and other market levels.

The proceeds from our $2 billion December 2006 convertible debt issuance were used to fund an investment portfolio of fixed income securities until December 2007. These proceeds, as well as the remaining proceeds from our $3 billion December 2007 convertible debt issuance, were invested primarily in short-term investments or used to support operating needs in lieu of other short-term borrowings. In December 2008, we repurchased substantially all of our $2 billion December 2006 convertible debt issuance at par plus accrued interest as required by the holders under the terms of the notes. In December 2008, we repurchased, in individually negotiated transactions, $853 million of our $3 billion December 2007 convertible debt issuance, which notes were offered to us by certain holders. In March 2009, we repurchased an additional $245 million of our $3 billion December 2007 convertible debt issuance, also in individually negotiated transactions, which notes were offered to us by certain holders. The March 2009 repurchase resulted in a pre-tax gain of $7 million, which is included in other corporate activities. In June 2009, we repurchased an additional $1,819 million of our $3 billion December 2007 convertible debt issuance at par plus accrued interest as required by the holders under the terms of the notes. As of June 30, 2009, $87 million of convertible senior notes remain outstanding.

Corporate operations pension income and employee benefits decreased $15 million. The decrease reflects increased post-retirement benefit costs due to the amortization of prior year losses and lower investment returns due to the lower asset base reflective of current markets, partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $5 million, from $72 million in the second quarter of 2008 to $77 million in the second quarter of 2009.

Adjusted operating income of our real estate and relocation services business increased $6 million, from a loss of $3 million in the second quarter of 2008 to income of $3 million in the second quarter of 2009. Our real estate and relocation services business continues to experience lower royalty fees and lower relocation revenue from real estate referral fees due to unfavorable residential real estate market conditions. The lower fees and relocation revenues in the second quarter of 2009 are offset by lower operating expenses, lower loan loss provisions, and a benefit from a change in estimate from our share of earnings from equity method investments previously recorded. Certain of our clients utilize a fixed fee home sale program under which we assume the benefits and burdens of ownership with respect to a relocating employee s home that is purchased by us, including carrying costs and any loss on sale. As of June 30, 2009, we held in unsold inventory homes with a net value of $47 million under this program.

2009 to 2008 Six Month Comparison. Adjusted operating income decreased $257 million, from a loss of $71 million in the first six months of 2008 to a loss of $328 million in the first six months of 2009. Adjusted operating income from corporate operations decreased $223 million, from a loss of $45 million in the first six months of 2008 to a loss of $268 million in the first six months of 2009, primarily due to lower investment earnings and increased interest expense on capital debt. Investment income, net of interest expense, excluding capital debt interest expense, decreased $102 million, primarily reflecting lower earnings from the investment of proceeds from our convertible debt issuances, as discussed above, as well as other borrowings, including borrowings from the Federal Home Loan Bank of New York, and lower yields on cash and other invested assets. Capital debt interest expense increased by $108 million due to a greater level of capital debt, which includes the issuance in June 2008 of $1.5 billion of junior subordinated notes and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes in 2009. Previously, these proceeds were used to support an asset portfolio within the Retirement segment for which the Company has employed a substitute funding source, as discussed in Liquidity and Capital Resources Financing Activities. Partially offsetting these items was the benefit from other corporate activities of $19 million, reflecting the gain on the repurchase of some of our outstanding convertible debt, as discussed above, corporate operations hedging activities, and a decline in the level of costs related to our retained obligations to certain policyholders, as discussed above, which more than offset an increase in our deferred compensation liabilities and increases in other retained corporate expenses. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by financial market conditions.

Corporate operations pension income and employee benefits decreased $32 million. The decrease reflects increased post-retirement benefit costs due to the amortization of prior year losses and lower investment returns due to the lower asset base reflective of current markets, partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $10 million, from $144 million in the first six months of 2008 to $154 million in the first six months of 2009.

Adjusted operating income of our real estate and relocation services business decreased $34 million, from a loss of $26 million in the first six months of 2008 to a loss of $60 million in the first six months of 2009. Our real estate and relocation services business continues to experience lower royalty fees and lower relocation revenue from real estate referral fees due to unfavorable residential real estate market conditions. Results for 2009 also include our share of the earnings from equity method investments, which include goodwill impairments recorded in 2009 within these entities. Certain of our clients utilize a fixed fee home sale program under which we assume the benefits and burdens of ownership with respect to a relocating employee s home that is purchased by us, including carrying costs and any loss on sale. As of June 30, 2009, we held in unsold inventory homes with a net value of $47 million under this program.

Results of Operations of Closed Block Business

We established the Closed Block Business effective as of the date of demutualization. The Closed Block Business includes our in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity and related liabilities that support these policies. We no longer offer these traditional domestic participating policies. See Overview Closed Block Business for additional details.

At the end of each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we will record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block Business will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of June 30, 2009, actual cumulative earnings fell below the expected cumulative earnings by $622 million, thereby eliminating the cumulative earnings policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Furthermore, due to the accumulation of net unrealized investment losses that have arisen subsequent to the establishment of the Closed Block, the policyholder dividend obligation balance as of June 30, 2009 remains at zero.

Operating Results

Management does not consider adjusted operating income to assess the operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with U.S. GAAP. The following table sets forth the Closed Block Business U.S. GAAP results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
U.S. GAAP results:				
Revenues	$ 825	$ 1,496	$ 1,965	$ 3,167
Benefits and expenses	1,411	1,458	2,521	3,155
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (586)	$ 38	$ (556)	$ 12

Income (Loss) from Continuing Operations Before Income Taxes and Equity in Earnings of Operating Joint Ventures

2009 to 2008 Three Month Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $624 million, from income of $38 million in the second quarter of 2008 to a loss of $586 million in the second quarter of 2009. Results for 2009 include an increase of $509 million in net realized investment losses, from $348 million in the second quarter of 2008 to $857 million in the second quarter of 2009 primarily due to a net decrease in the market value of derivatives used in hedging and investment management duration programs, as well as higher impairments and credit losses. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, decreased $83 million, primarily related to a decrease in income on joint ventures and limited partnership investments accounted for under the equity method and lower portfolio yields, including lower interest rates on floating rate investments due to rate resets. These decreases to income were partially offset by a decrease of $99 million in dividends paid and accrued to policyholders, primarily due to a decrease in the 2009 dividend scale. In addition, amortization of deferred policy acquisition costs decreased $30 million, reflecting the impact of investment losses on actual gross profits for the period compared to the previously estimated expected gross profits for the period. During the second quarter of 2009, the cumulative earnings policyholder dividend obligation was reduced from $299 million to zero, and was a partial offset to the decline in earnings as discussed above. In the second quarter of 2008, the change in the cumulative earnings policyholder dividend obligation of $496 million was an offset to the decline in earnings in the period. As noted above, as of June 30, 2009 actual cumulative earnings fell below the expected cumulative earnings by $622 million. There will be no cumulative earnings policyholder dividend obligation until this amount is recovered. Without the benefit of the cumulative earnings policyholder dividend obligation, Closed Block Business earnings could be volatile primarily due to changes in investment results.

2009 to 2008 Six Month Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $568 million, from income of $12 million in the first six months of

2008 to a loss of $556 million in the first six months of 2009. Results for 2009 include an increase of $834 million in net realized investment losses, from $458 million in the first six months of 2008 to $1.292 billion in the first six months of 2009 primarily due to a net decrease in the market value of derivatives used in hedging and investment management duration programs, as well as higher impairments and credit losses. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, decreased $177 million, primarily related to a decrease in income on joint ventures and limited partnership investments accounted for under the equity method and lower portfolio yields, including lower interest rates on floating rate investments due to rate resets. These decreases to income were partially offset by a decrease of $199 million in dividends paid and accrued to policyholders, primarily due to a decrease in the 2009 dividend scale. In addition, amortization of deferred policy acquisition costs decreased $30 million reflecting the impact of investment losses on actual gross profits for the period compared to the previously estimated expected gross profits for the period. During the first six months of 2009, the cumulative earnings policyholder dividend obligation was reduced from $851 million to zero, and was a partial offset to the decline in earnings as discussed above. In the first six months of 2008, the change in the cumulative earnings policyholder dividend obligation of $649 million was an offset to the decline in earnings in the period. Without the benefit of the cumulative earnings policyholder dividend obligation, Closed Block Business earnings could be volatile primarily due to changes in investment results.

Revenues

2009 to 2008 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $671 million, from $1.496 billion in the second quarter of 2008 to $825 million in the second quarter of 2009, principally driven by the $509 million increase in net realized investment losses and a decrease of $93 million in net investment income, as discussed above. In addition, premiums declined, with a related decrease in changes in reserves, primarily due to a lower amount of dividends used by policyholders to purchase additional insurance, as a result of the dividend scale reduction.

2009 to 2008 Six Month Comparison. Revenues decreased $1.202 billion, from $3.167 billion in the first six months of 2008 to $1.965 billion in the first six months of 2009, principally driven by the $834 million increase in net realized investment losses and a decrease of $212 million in net investment income, as discussed above. In addition, premiums declined, with a related decrease in changes in reserves, primarily due to a lower amount of dividends used by policyholders to purchase additional insurance, as a result of the dividend scale reduction, and to a lesser extent, the expected in force decline as policies terminate.

Benefits and Expenses

2009 to 2008 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $47 million, from $1.458 billion in the second quarter of 2008 to $1.411 billion in the second quarter of 2009. Policyholders benefits, including changes in reserves, decreased $101 million driven by a decline in premiums, as discussed above. In addition, amortization of deferred policy acquisition costs decreased primarily due to the cumulative impact of differences between actual gross profits for the period compared to the previously estimated expected gross profits for the period. These decreases were partially offset by a $98 million increase in dividends to policyholders including an increase in the cumulative earnings policyholder dividend obligation expense of $197 million, reflecting a lower benefit, partially offset by a decrease in dividends paid and accrued to policyholders of $99 million, primarily due to a decrease in the dividend scale.

2009 to 2008 Six Month Comparison. Benefits and expenses decreased $634 million, from $3.155 billion in the first six months of 2008 to $2.521 billion in the first six months of 2009. This decrease included a $401 million decline in dividends to policyholders reflecting a decrease in the cumulative earnings policyholder dividend obligation expense of $202 million, as well as a decrease in dividends paid and accrued to policyholders of $199 million, primarily due to a decrease in the dividend scale. Policyholders benefits, including changes in reserves, decreased $161 million driven by a decline in premiums, as discussed above. In addition, amortization of deferred policy acquisition costs decreased primarily due to the cumulative impact of differences between actual gross profits for the period compared to the previously estimated expected gross profits for the period.

Income Taxes

Our income tax provision amounted to an income tax benefit of $162 million in the second quarter of 2009 compared to income tax expense of $60 million in the second quarter of 2008. The benefit in the second quarter of 2009 includes a reduction to the liability for unrecognized tax benefits and interest of $147 million primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 tax year, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates. The remainder of the decline in income tax expense reflects the decline in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures from the second quarter of 2008 to the second quarter of 2009.

Our income tax provision amounted to an income tax benefit of $158 million in the first six months of 2009 compared to income tax expense of $83 million in the first six months of 2008. The benefit in the first six months of 2009 includes a reduction to the liability for unrecognized tax benefits and interest of $151 million primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 tax year, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates. The remainder of the decline in income tax expense reflects the decline in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures from the first six months of 2008 to the first six months of 2009.

The statute of limitations for the 2003 tax year expired on July 31, 2009. As a result, our income tax provision for the third quarter of 2009 will include a reduction to the liability for unrecognized tax benefits and interest of approximately $165 million related to tax years prior to 2002.

We employ various tax strategies, including strategies to minimize the amount of taxes resulting from realized capital gains.

The dividends received deduction, or DRD, reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between our 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 our taxable income before the DRD.

In August 2007, the Internal Revenue Service, or 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 suspends Revenue Ruling 2007-54 and informs taxpayers that the U.S. Treasury Department and the IRS have indicated that they 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 our actual tax expense and reduce our consolidated net income. These activities had no impact on our 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, we have agreed to such adjustment. The report, with the adjustment to the DRD, was submitted to the Joint Committee on Taxation in October 2008. We were 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. We believe that our return position with respect to the calculation of the DRD is technically correct. Therefore, we intend to file a protective refund claim within six months of the expiration of the respective statutes of limitations to recover the taxes associated with the agreed upon adjustment and to pursue such other actions as appropriate. These activities had no impact on our 2008 or 2009 results.

In January 2007, the IRS began an examination of tax years 2004 through 2006. For tax years 2007, 2008 and 2009, we participated in the IRS s Compliance Assurance Program, or CAP. Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with us on how they should be reported in the tax return. 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 that this program will shorten the time period between the filing of our federal income tax returns and the IRS s completion of its examination of the returns.

Our 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 our 2008 and 2009 results.

Discontinued Operations

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. A summary of the results of discontinued operations by business is as follows for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Real estate investments sold or held for sale	$ 26	$	$ 28	$ 1
Equity sales, trading and research operations	1	(1)	1	(2)
International securities operations	1	(3)	1	(2)
Mexican asset management operations	(1)		(1)	1
Income (loss) from discontinued operations before income taxes	27	(4)	29	(2)
Income tax expense (benefit)	6	(1)	7	(1)
Income (loss) from discontinued operations, net of taxes	$ 21	$ (3)	$ 22	$ (1)

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

For additional information regarding discontinued operations, see Note 3 of the Unaudited Interim Consolidated Financial Statements.

Divested Businesses

Our income from continuing operations includes results from several businesses that have been or will be sold or exited that do not qualify for discontinued operations accounting treatment under U.S. GAAP. The results of these divested businesses are reflected in our Corporate and Other operations, but excluded from adjusted operating income. A summary of the results of the divested businesses that have been excluded from adjusted operating income is as follows for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Financial Advisory	$ (15)	$ 23	$ (40)	$ 68
Commercial mortgage securitization operations	(9)	(16)	(13)	(123)
Exchange shares previously held by Prudential Equity Group		(2)		(7)
Property and casualty insurance	1	2	2	1
Prudential Securities capital markets	(1)	3	(5)	4
Total divested businesses excluded from adjusted operating income	$ (24)	$ 10	$ (56)	$ (57)

Financial Advisory

In 2008, we classified our Financial Advisory business as a divested business, reflecting our intention to exit this business, as discussed in more detail below. This business consists of our investment in the Wachovia Securities joint venture described below, in addition to expenses relating to obligations and costs we retained in connection with the businesses we contributed to the joint venture, primarily for litigation and regulatory matters.

On July 1, 2003, we combined our 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. On October 1, 2007, Wachovia completed the acquisition of A.G. Edwards, Inc. 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 us to elect a lookback option (which we elected) permitting us to delay for a period of two years ending on January 1, 2010 our decision whether or not to make payments to avoid or limit dilution of our initial 38% ownership interest in the joint venture or, alternatively, to put our 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. Subsequently, Wachovia was acquired by Wells Fargo, which succeeded to the rights and obligations of Wachovia under the joint venture agreements. Wachovia Securities is now using the Wells Fargo Advisors name.

On December 4, 2008, we announced our intention to exercise our right under the lookback option to put our joint venture interests to Wells Fargo. On June 17, 2009, we provided notice to Wells Fargo of our exercise of our lookback put rights. The results associated with our joint venture interests are classified as results of a divested business, reflecting our intention to exit this business. Under the terms of the joint venture agreements, we expect that the closing of the put transaction would 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. We have 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 us 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.

We will bear the risk of changes in the market value of the portion of the payment received at closing in Wells Fargo common stock until such stock is disposed of. We are evaluating our options for mitigating potential reductions in the ultimate proceeds from any common stock received at closing. Our ability to hedge such market risk may be limited and our ability to dispose of such stock will be subject to securities law and other restrictions.

We have estimated the proceeds from the exercise of the lookback put to be approximately $5 billion, based on a January 1, 2010 closing, the terms of the joint venture agreements and our assessment of market conditions and retail brokerage firm valuations at the relevant valuation date of January 1, 2008, producing an estimated gain upon settlement of approximately $2.7 billion or about $1.8 billion on an after-tax basis; however, the amount of such proceeds and gain have not been finally determined and could be more or less. The after-tax gain on sale would be reflected in the capital and surplus of Prudential Insurance.

Notwithstanding the terms of the joint venture agreements governing the lookback put, we have from time to time had discussions with Wells Fargo concerning a possible early settlement of the lookback put. The proceeds received upon any early settlement would take into account the time value of money, the benefits and certainty provided by an early resolution and the form of consideration to be received. Taking into account these factors, it could be expected that we may agree to an amount less than our $5 billion estimate in an early settlement. Absent an early settlement, we will proceed with the closing of the lookback put transaction in accordance with the relevant terms of the joint venture agreements as discussed above.

The foregoing description of the proceeds to be received in respect of our interest in the Wachovia Securities joint venture is exclusive of certain payments to which our Asset Management segment is entitled under the Sweep Feature Agreement listed as Exhibit 10.61 to our Annual Report on Form 10-K for the year ended December 31, 2008. Revenues received under that agreement, contributed to pre-tax adjusted operating income of our Asset Management segment in the amount of $30 million for the six months ended June 30, 2009,

$55 million in 2008, $51 million in 2007, $51 million in 2006 and $54 million in 2005. Payments under this agreement continue, unless otherwise agreed, for ten years after the termination of the Wachovia Securities joint venture.

In connection with the establishment of the Wachovia Securities joint venture, Wachovia Securities, LLC issued a subordinated promissory note in the principal amount of $417 million, which is held by Prudential Insurance. This note bears interest, payable quarterly, at three month LIBOR plus 105 basis points. Under the terms of the joint venture agreements, this note becomes payable, together with accrued and unpaid interest, within thirty days of termination of the joint venture.

Commercial Mortgage Securitization Operations

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. These operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, were previously reported within the Asset Management segment. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment. As of June 30, 2009 and 2008, our commercial mortgage securitization operations held loans with a principal balance of $116 million and $332 million, respectively, whose fair values continue to be subject to changes in credit spreads. The losses of $13 million and $123 million in the first six months of 2009 and 2008, respectively, primarily reflect net realized and unrealized losses on the loans, bonds and hedges from instability in the commercial mortgage-backed securities market.

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 we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

Results for the three months ended June 30, 2009 and 2008 include the recognition of net investment gains of $686 million and net investment losses of $123 million, respectively, and for the six months ended June 30,

2009 and 2008 include the recognition of net investment gains of $831 million and net investment losses of $385 million, respectively, on Trading account assets supporting insurance liabilities, at fair value. These net investment gains and losses primarily represent interest-rate related mark-to-market adjustments, which include the impact of changes in credit spreads on fixed maturity securities. Consistent with our treatment of Realized investment gains (losses), net, these gains and losses, which are expected to ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the three months ended June 30, 2009 and 2008 include increases of $347 million and decreases of $94 million, respectively, and for the six months ended June 30, 2009 and 2008 include increases of $392 million and decreases of $294 million, respectively, in contractholder liabilities due to asset value changes in the pool of investments that support these experience-rated contracts. These liability changes are reflected in Interest credited to policyholders account balances and are also excluded from adjusted operating income. Contractholder liabilities do not reflect declines in recorded asset values of $317 million and $191 million, as of June 30, 2009 and 2008, respectively, which we expect to recover in future periods through increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

In addition, as prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in value are reflected as a change in the liability to fully participating contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders related to commercial mortgage and other loans are increases of $21 million and decreases of $28 million for the three months ended June 30, 2009 and 2008, respectively, and increases of $40 million and decreases of $17 million for the six months ended June 30, 2009 and 2008, respectively.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

As discussed in Notes 2 and 12 to the Unaudited Interim Consolidated Financial Statements, we adopted SFAS No. 157 effective January 1, 2008. SFAS No. 157 establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques 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 us 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. Our 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 liabilities and other market observable inputs. Our Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset- 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 our assumptions about the assumptions market participants would use in pricing the asset or liability. Our 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, including certain asset-backed securities and securities where we chose to utilize other pricing information than that received from third parties as discussed below, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which we are 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 we utilize when pricing service information is not available, are reviewed for reasonableness based on our understanding of the market, and are generally considered Level 3. Under certain conditions, based on our observations of transactions in active markets, we may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, we 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 June 30, 2009 and December 31, 2008 these over-rides on a net basis were not material.

As discussed in Note 2 to the Consolidated Financial Statements, we adopted FSP FAS 157-4 effective January 1, 2009. This FSP did not provide new accounting guidance but rather, clarified existing guidance regarding the calculation of fair value of an asset or liability when markets are inactive or transactions are executed in a disorderly manner. Our fair value methodologies already incorporated these concepts and accordingly, the adoption of this FSP resulted in no material changes to our valuation processes as of January 1, 2009. As discussed below, we continue to evaluate whether markets are inactive or transactions are executed in a disorderly manner on a quarterly basis. The FSP also increased the level of detail required for disclosures of fixed maturities to provide amounts separately for Corporate, Foreign Government, Asset-backed, Residential Mortgage-backed, Commercial Mortgage-backed, US Government, and State & Municipal fixed maturity securities. This level of information is required prospectively as of January 1, 2009 and accordingly, prior periods have not been presented.

As of June 30, 2009 we concluded that the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market as defined under FSP FAS 157-4. Therefore, in determining the fair value of certain asset-backed securities collateralized by sub-prime mortgages, we considered both third-party pricing information and an internally developed price based on a discounted cash flow model. As a result, we reported fair values for these sub-prime securities which were net $693 million higher than the estimated fair values received from independent third party pricing services or brokers. The adjusted fair value of these securities was $5,362 million.

During the second quarter of 2009 we 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 uptick in the level of activity. We also observed significant increases in 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, 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, recovered in the second quarter of 2009. Based on this information, we concluded as of June 30, 2009 that the market for asset-backed securities collateralized by sub-prime mortgages was inactive and also determined the pricing quotes we received were based on little, if any, market activity, calling into question their representation of observable fair value. Furthermore, our 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, we 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. We also applied additional risk premiums to the discount rate to reflect the relative illiquidity and asset specific cash flow uncertainty associated with asset-backed securities collateralized by sub-prime mortgages. This combined security-specific additional spread reflects our judgment of what an investor would demand for taking on such risks in an orderly transaction under current market conditions at the end of the second quarter 2009, 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. We believe 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 our recent observations of some limited transactions in shorter-duration 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, we considered the level of inactivity and impact of disorderly transactions. We weighted third-party pricing information as little as 30% where we had little observable market information, and as much as 90% where more observable information was available.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of June 30, 2009 and December 31, 2008, for Consolidated, Financial Services Businesses and Closed Block Business.

	Consolidated as of June 30, 2009				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 6,563	$	$	$ 6,563
Obligations of U.S. states and their political subdivisions		748			748
Foreign government bonds		35,704	43		35,747
Corporate securities		81,570	1,279		82,849
Asset-backed securities		4,494	6,014		10,508
Commercial mortgage-backed securities		10,192	59		10,251
Residential mortgage-backed securities		12,050	197		12,247
Sub-total		151,321	7,592		158,913
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		112			112
Obligations of U.S. states and their political subdivisions		2			2
Foreign government bonds		479			479
Corporate securities		8,415	197		8,612
Asset-backed securities		423	269		692
Commercial mortgage-backed securities		2,127	5		2,132
Residential mortgage-backed securities		1,357	24		1,381
Equity securities	615	186	2		803
All other activity	336	217			553
Sub-total	951	13,318	497		14,766
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		59			59
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		33			33
Corporate securities	10	175	59		244
Asset-backed securities		1,587	35		1,622
Commercial mortgage-backed securities		111	9		120
Residential mortgage-backed securities		112	6		118
Equity securities	72	10	21		103
All other activity	12	4,968	906	(4,470)	1,416
Sub-total	94	7,055	1,036	(4,470)	3,715
Equity securities, available for sale	3,460	2,106	351		5,917
Commercial mortgage and other loans		508			508
Other long-term investments	50	133	495		678
Short-term investments	3,251	2,819			6,070
Cash and cash equivalents	2,039	8,432			10,471
Other assets	2,018	453	26		2,497
Sub-total excluding separate account assets	11,863	186,145	9,997	(4,470)	203,535
Separate account assets(3)	54,592	82,470	14,204		151,266
Total assets	$ 66,455	$ 268,615	$ 24,201	$ (4,470)	$ 354,801

Future policy benefits			796		796
Long-term debt			1,167		1,167
Other liabilities	15	4,607	79	(3,878)	823
Total liabilities	$ 15	$ 4,607	$ 2,042	$ (3,878)	$ 2,786

	Financial Services Businesses as of June 30, 2009				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 3,462	$	$	$ 3,462
Obligations of U.S. states and their political subdivisions		480			480
Foreign government bonds		35,151	30		35,181
Corporate securities		56,007	849		56,856
Asset-backed securities		3,534	3,423		6,957
Commercial mortgage-backed securities		6,736	59		6,795
Residential mortgage-backed securities		9,232	121		9,353
Sub-total		114,602	4,482		119,084
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		112			112
Obligations of U.S. states and their political subdivisions		2			2
Foreign government bonds		479			479
Corporate securities		8,415	197		8,612
Asset-backed securities		423	269		692
Commercial mortgage-backed securities		2,127	5		2,132
Residential mortgage-backed securities		1,357	24		1,381
Equity securities	615	186	2		803
All other activity	336	217			553
Sub-total	951	13,318	497		14,766
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		59			59
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		33			33
Corporate securities	10	68	47		125
Asset-backed securities		1,562	35		1,597
Commercial mortgage-backed securities		111	9		120
Residential mortgage-backed securities		112	6		118
Equity securities	51	10	21		82
All other activity	12	4,968	906	(4,470)	1,416
Sub-total	73	6,923	1,024	(4,470)	3,550
Equity securities, available for sale	1,134	1,963	307		3,404
Commercial mortgage and other loans		508			508
Other long-term investments	50	59	495		604
Short-term investments	2,288	2,435			4,723
Cash and cash equivalents	1,987	6,802			8,789
Other assets	2,018	453	26		2,497
Sub-total excluding separate account assets	8,501	147,063	6,831	(4,470)	157,925
Separate account assets(3)	54,592	82,470	14,204		151,266
Total assets	$ 63,093	$ 229,533	$ 21,035	$ (4,470)	$ 309,191
Future policy benefits			796		796
Long-term debt			1,167		1,167
Other liabilities	15	4,607	79	(3,878)	823
Total liabilities	$ 15	$ 4,607	$ 2,042	$ (3,878)	$ 2,786

	Closed Block Business as of June 30, 2009				
	Level 1	**Level 2**	**Level 3(1)**	**Netting(2)**	**Total**
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 3,101	$	$	$ 3,101
Obligations of U.S. states and their political subdivisions		268			268
Foreign government bonds		553	13		566
Corporate securities		25,563	430		25,993
Asset-backed securities		960	2,591		3,551
Commercial mortgage-backed securities		3,456			3,456
Residential mortgage-backed securities		2,818	76		2,894
Sub-total		36,719	3,110		39,829
Trading account assets supporting insurance liabilities					
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies					
Obligations of U.S. states and their political subdivisions					
Foreign government bonds					
Corporate securities		107	12		119
Asset-backed securities		25			25
Commercial mortgage-backed securities					
Residential mortgage-backed securities					
Equity securities	21				21
All other activity					
Sub-total	21	132	12		165
Equity securities, available for sale	2,326	143	44		2,513
Commercial mortgage and other loans					
Other long-term investments		74			74
Short-term investments	963	384			1,347
Cash and cash equivalents	52	1,630			1,682
Other assets					
Sub-total excluding separate account assets	3,362	39,082	3,166		45,610
Separate account assets(3)					
Total assets	$ 3,362	$ 39,082	$ 3,166	$	$ 45,610
Future policy benefits					
Long-term debt					
Other liabilities					
Total liabilities	$	$	$	$	$

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 7% for Consolidated, Financial Services Businesses and Closed Block Business. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5% and 4% for Consolidated and Financial Services Businesses, respectively. The amount of Level 3 liabilities was immaterial to our balance sheet.

(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

(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 us 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 our Consolidated Statement of Financial Position.

	Consolidated as of December 31, 2008				
	Level 1	Level 2	Level 3(1) (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(3)	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

	Financial Services Businesses as of December 31, 2008				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$	$ 117,393	$ 1,760	$	$ 119,153
Trading account assets supporting insurance liabilities	748	12,982	145		13,875
Other trading account assets	143	9,774	1,384	(7,085)	4,216
Equity securities, available for sale	1,548	1,818	299		3,665
Commercial mortgage and other loans		517	56		573
Other long-term investments	246	54	1,015		1,315
Short-term investments	1,614	1,377			2,991
Cash and cash equivalents	2,379	7,014			9,393
Other assets	1,255	2,500	26		3,781
Sub-total excluding separate account assets	7,933	153,429	4,685	(7,085)	158,962
Separate account assets(3)	56,362	70,953	19,780		147,095
Total assets	$ 64,295	$ 224,382	$ 24,465	$ (7,085)	$ 306,057
Future policy benefits			3,229		3,229
Long-term debt			324		324
Other liabilities(4)	(16)	6,692	138	(5,948)	866
Total liabilities	$ (16)	$ 6,692	$ 3,691	$ (5,948)	$ 4,419

	Closed Block Business as of December 31, 2008				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$	$ 38,394	$ 509	$	$ 38,903
Trading account assets supporting insurance liabilities					
Other trading account assets		108	12		120
Equity securities, available for sale	2,253	121	26		2,400
Commercial mortgage and other loans					
Other long-term investments		211			211
Short-term investments	987	497			1,484
Cash and cash equivalents	133	1,820			1,953
Other assets					
Sub-total excluding separate account assets	3,373	41,151	547		45,071
Separate account assets(3)					
Total assets	$ 3,373	$ 41,151	$ 547	$	$ 45,071
Future policy benefits					
Long-term debt					
Other liabilities	73		1		74
Total liabilities	$ 73	$	$ 1	$	$ 74

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 7%, 8% and 1% for Consolidated, Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 3% for both Consolidated and Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39.*

(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 us 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 our Consolidated Statement of Financial Position.

(4) The negative Other liability amount for Financial Services Businesses reflects the impact of inter-company eliminations.

For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 12 to the Unaudited Interim Consolidated Financial Statements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations. As discussed in more detail below, the determination of fair value for certain assets and liabilities may require the application of a greater degree of judgment given current market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The following sections describe the key estimates and assumptions surrounding certain assets and liabilities, measured at fair value on a recurring basis, that could have a significant impact on our results of operations or involve the use of significant unobservable inputs. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is ultimately borne by our customers and policyholders.

Valuation of Fixed Maturity Securities

Our public fixed maturity securities include investments in corporate, foreign government, asset-backed, residential mortgage-backed, commercial mortgage-backed, U.S. government, and state and municipal securities. The fair values of our public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices are sourced from multiple pricing services, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. We generally receive prices from multiple pricing services for each security, but ultimately use 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 our internal asset managers through comparison with directly observed recent market trades and internal estimates of current fair value, generally 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 we conclude pricing information received from third party pricing services is not reflective of market activity or other inputs we have observed in the market, we 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 our presented market observations, the security remains within Level 2.

If we ultimately conclude that pricing information received from the independent pricing service is not reflective of market activity, we use values based on non-binding broker quotes, if available. If we conclude values from both pricing services and brokers are not reflective of market activity, we may over-ride the information from the pricing service or broker with an internally developed valuation. As of June 30, 2009 and December 31, 2008 over-rides on a net basis were not material. In circumstances where vendor pricing is not available, we also use internally developed valuations or non-binding broker quotes to determine fair value. 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. As discussed above, based on our conclusion that the market for asset-backed securities collateralized by sub-prime mortgages was inactive as of June 30, 2009, we considered both third-party pricing information and an internally developed price based on a discounted cash flow model in determining the fair value of certain of these securities. As of June 30, 2009 asset-backed securities collateralized by sub-prime mortgages with a fair value of $5,362 million were included in Level 3 based on the unobservable inputs used in the discounted cash flow model. Despite the dislocated markets and low levels of liquidity in 2008 and the first six months of 2009, except for our asset-backed securities collateralized by sub-prime mortgages as discussed above, pricing received from the independent pricing services was not materially different from our internal estimates of current market value for the remainder of our fixed maturity portfolio. As a result, we generally continued to use the price provided by the independent pricing service under our normal pricing protocol.

Our private fixed maturities are primarily comprised of investments in private placement securities originated by our internal private asset managers. The fair values of these private fixed maturities are primarily 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. Generally, these securities have been reflected within Level 2 in our fair value hierarchy. For certain of these securities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect our own assumptions about the inputs market participants would use in pricing the asset. Accordingly, these securities have been reflected within Level 3 in our fair value hierarchy.

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 our ability to redeem our 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 our fair value hierarchy.

Our Level 3 fixed maturity securities generally include certain public fixed maturities and private fixed maturities priced internally based on observable and unobservable inputs. As of June 30, 2009 our Level 3 fixed maturity securities also included certain asset-backed securities collateralized by sub-prime mortgages with a fair value of $5,362 million. As discussed above, we reported fair values for these sub-prime securities which were net $693 million higher than the estimated fair values received from third party pricing services or brokers, based on our determination that as of June 30, 2009, the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market. The $693 million increase in fair value included $660 million relating to available-for-sale securities, with $365 million related to securities attributable to our Financial Services Businesses and $295 million related to securities attributable to our Closed Block Business. The increase to the fair value of these available-for-sale securities resulted in a corresponding increase to Accumulated other comprehensive income (loss), net, The remaining $33 million increase in fair value related to trading account assets supporting insurance liabilities in our Financial Services Business, and resulted in a corresponding increase in Asset management fees and other income. Excluding these asset-backed securities collateralized by sub-prime mortgages, as of June 30, 2009 and December 31, 2008, about half of our Level 3 fixed maturity securities were public fixed maturities, with values primarily based on non-binding broker-quotes, and about half were private fixed maturities, with values primary based on internally developed models, as discussed above. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cashflows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data. As of December 31, 2008 we classified approximately $122 million of our investments in asset-backed securities collateralized by sub-prime mortgages as Level 3, primarily reflecting securities valued based on non-binding broker quotes. The vast majority of our asset-backed securities collateralized by sub-prime mortgages were valued as of December 31, 2008 using information from independent pricing services, and were included in Level 2 based on the process described above. Net realized and unrealized gains (losses) for Level 3 Available for Sale fixed maturities totaled $(333) million and $1,129 million, respectively, for the three months ended June 30, 2009 and $(85) million and $(7) million, respectively, for the three months ended June 30, 2008. Net realized and unrealized gains (losses) for Level 3 Available for Sale fixed maturities totaled $(414) million and $866 million, respectively, for the six months ended June 30, 2009 and $(229) million and $(129) million, respectively, for the six months ended June 30, 2008.

For additional information regarding our holdings of asset-backed securities collateralized by sub-prime mortgages, see, Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Asset-Backed Securities. While the fair value of these investments, as well as others within our portfolio of fixed maturities, are in a significant unrealized loss position due to increased credit spreads and illiquidity in the financial markets, we believe the ultimate value that will be realized from these investments is greater than that reflected by their current fair value.

Valuation of Equity Securities

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 our fair value hierarchy. Estimated fair values for 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 our own assumptions about the inputs market participants would use in pricing the asset. Most privately traded equity securities are classified within Level 3. The fair values of common stock mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in our 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 recent market trades we have directly observed. Accordingly, these securities are generally classified within Level 2 in our fair value hierarchy.

Impact of Valuation of Fixed Maturities and Equity Securities on Results of Operations

The impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available for sale, or held to maturity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. For our investments classified as available for sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), net, a separate component of equity. Our investments classified as held to maturity are carried at amortized cost. In addition, investments classified as available for sale, as well as those classified as held to maturity, are subject to impairment reviews to identify when a decline in fair value is other-than-temporary. 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 impaired to its fair value, with a corresponding charge to earnings. Under FSP FAS 115-2 and FAS 124-2, effective January 1, 2009, 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 we intend 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 either of these two criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt 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 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). Prior to the adoption of FSP FAS 115-2 and FAS 124-2, the other-than-temporary impairment recognized in earnings for debt securities was equal to the total difference between amortized cost and fair value at the impairment measurement date. The other-than-temporary impairment charged to earnings is reflected within Realized investment gains (losses), net in the statement of operations and is included in income from continuing operations under U.S. GAAP but excluded from adjusted operating income. The level of impairment losses can be expected to increase when economic conditions worsen and decrease when economic conditions improve. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses for a discussion of the effects of impairments on our operating results for the periods ended June 30, 2009 and 2008.

For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording fixed maturity 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 below. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording equity impairments, see Realized Investment Gains and Losses and General Account Investments General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities below.

Valuation of Commercial Mortgage Loans

Upon the adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, we elected the fair value option for certain loans held within the commercial mortgage operations of the asset management segment. Specifically, the fair value option was elected for funded commercial mortgage loans held for sale that were originated beginning January 1, 2008. In addition, we elected the fair value option for fixed rate commercial mortgage loans held for investment that were held at December 31, 2007 and for such loans originated beginning January 1, 2008. We elected the fair value option for the loan programs mentioned above primarily to eliminate the need for hedge accounting under SFAS No. 133, while still achieving an offset in earnings from the associated interest rate derivative hedges.

Due to volatility in the credit markets, we experienced unexpected volatility in the fair value of the aforementioned fixed rate commercial mortgage loans held for investment that was not substantially offset by the associated interest rate derivative hedges during the quarter ended June 30, 2008. Therefore, we decided to no longer elect the fair value option on loans held for investment that were originated after June 30, 2008, and have applied hedge accounting under SFAS No. 133.

The fair value of loans held for investment and accounted for using the Fair Value Option discussed above is 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. Since the interest rate and market spread assumptions for similar quality loans are generally observable based upon market transactions, the fair value of loans held for investment has been reflected within Level 2 in our fair value hierarchy.

The fair value of loans held for sale and accounted for using the Fair Value Option discussed above, as well as those loans reported at fair value on a non-recurring basis accounted for using the lower of cost or market approach is determined utilizing pricing indicators from the whole loan markets, which we consider our principal exit markets for these loans. We have 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 for the loans held for sale accounted for using the Fair Value Option and are Level 3 for loans reported at fair value on a non-recurring basis.

Valuation of Other Long-Term Investments

Other long-term investments carried at fair value include limited partnerships which we consolidate because we are either deemed to exercise control or are 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 our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 as of June 30, 2009 and December 31, 2008 totaled approximately $0.5 billion and $1.0 billion respectively. Our direct investment in these funds is not material, and the majority of the assets recorded as a result of the consolidation of these funds is offset by a noncontrolling interest reflected as a separate component of equity, which amount is not considered to be fair value and therefore, not included in fair value reporting above.

Valuation of 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.

Our over-the-counter, or 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 our interest, as well as those of our counterparties, should either party suffer a credit rating deterioration. The vast majority of our derivative agreements are with highly rated major international financial institutions. Consistent with the practice of major international financial institutions, we use the credit spread embedded in the LIBOR interest rate curve to reflect non-performance risk when determining the fair value of our derivative assets and liabilities. We believe 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 the collateral posting process.

Our 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 our derivative positions are traded in the OTC derivative market and are classified within Level 2 in our 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, yield curves, equity prices, index dividend yields, non-performance risk and volatility.

Most OTC derivative contracts have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. Our policy is to use mid-market pricing consistent with our best estimate of fair value. The bid-ask spreads for derivatives classified within Level 3 of the fair value hierarchy are generally wider than derivatives classified within Level 2 thus requiring more judgment in estimating the mid-market price of such derivatives. The fair values of OTC derivative assets and liabilities classified as Level 3 totaled approximately $0.9 billion and $79 million as of June 30, 2009 and $1.3 billion and $140 million as of December 31, 2008, respectively, without giving consideration to the impact of netting.

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 our fair value hierarchy. Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured options. For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Valuation of Variable Annuity Optional Living Benefit Features below. The fair values of first-to-default credit basket swaps are derived from relevant observable inputs such as:

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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 our fair values to broker-dealer s values.

All realized and unrealized changes in fair value of non-dealer related derivatives, with the exception of the effective portion of qualifying cash flow hedges and hedges of net investments in foreign operations, are recorded in current earnings. Generally, the changes in fair value of such non-dealer related derivatives, excluding those that qualify for hedge accounting, are recorded in Realized investment gains (losses), net. For additional information regarding the impact of changes in fair value of derivative instruments on our results of operations see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses below.

We hold externally-managed investments in the European market, as discussed in greater detail under Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Asset-Backed Securities. These investments are valued using market observable inputs including benchmark yields and reported trades and are classified as Level 2 for fair value reporting. The fair value of the embedded derivatives associated with these investments increased during the second quarter of 2009 due to the impact of credit spread tightening on the underlying investments. As of June 30, 2009 the embedded derivatives remain in a loss position on a cumulative basis as a result of the stress experienced in the credit markets. However, we believe the investment fundamentals remain sound, and the ultimate value that will be realized from these investments is greater than reflected by the current fair value of the embedded derivatives.

Valuation of Variable Annuity Optional Living Benefit Features

Our 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). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are carried at fair value with changes in fair value included in Realized investment gains (losses), net.

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. Under SFAS No. 157 we are also required to incorporate our own risk of non-performance in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the claims-paying ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our 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 our insurance subsidiaries, we determined that forward LIBOR interest rates were no longer indicative of a market participant s view of our claims-paying ability. As a result, beginning in the first quarter of 2009, to reflect the market s perception of our non-performance risk, we incorporated an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with our 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 our insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. We adjust these credit spreads to remove any liquidity risk premium. In the second quarter of 2009 we reduced the non-performance risk adjustment, resulting in a pre-tax charge of $660 million in our Individual Annuities segment and $16 million in our Retirement segment. The reduction in the non-performance risk adjustment was primarily driven by the overall decrease in the embedded derivative liabilities due to a decrease in future expected benefit payments, which resulted from an increase in policyholder account balances due to market appreciation and higher interest rates. A decrease in the additional spread over LIBOR we used in the second quarter of 2009, reflecting general credit spread tightening and our stronger capital position resulting from our equity raise, also contributed to the reduction in our market-perceived non-performance risk. The additional spread over forward LIBOR rates incorporated into the discount rate as of June 30, 2009 generally ranged from 100 to 200 basis points for the portion of the interest rate curve most relevant to these liabilities. For the first six months of 2009, our adjustment for the market s perception of our non-performance risk resulted in a $559 million pre-tax benefit to our Individual Annuities segment and a $7 million pre-tax benefit to our Retirement segment.

Other significant inputs to the valuation models 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. In the first quarter of 2009 we further updated our volatility assumptions for our Individual Annuities segment to reflect the inclusion of new market inputs. We no longer solely utilize the implied volatility of over-the-counter equity options, but a blend of these implied volatilities and an index based on historical volatilities. This update to our volatility assumption, which resulted in a reduction in the fair value of the embedded derivatives associated with our optional living benefit features, resulted in a $92 million pre-tax benefit to our Individual Annuities segment in the first six months of 2009.

Since many of the assumptions utilized in the valuation of the embedded derivatives associated with our 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 our fair value hierarchy. The change in fair value of the GMAB, GMWB and GMIWB resulted in a decrease in the total liability of $1,020 million and $2,433 million for the second quarter and first six months of 2009, respectively, primarily reflecting a decrease in future expected benefit payments, resulting from an increase in policyholder account balance due to market appreciation and higher interest rates, and the update of our market-perceived non-performance risk assumption discussed above. These changes were significantly offset by increased amortization of deferred policy acquisition and other costs, and changes in value of related hedging instruments, primarily in our Individual Annuities segment as described in more detail under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Valuation of Long-Term Debt

Long-term debt carried at fair value 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. We value 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 our fair value hierarchy. The pricing of the collateral assets (other trading account assets is generally based on third party pricing information as discussed above, and included in Level 2 in our fair value hierarchy. See Note 9 to the Unaudited Interim Consolidated Financial Statements for additional information regarding our participation in TALF.

Valuation of 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 Valuation of 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 Valuation of Derivative Instruments.

Valuation of Trading Account Assets

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 in Valuation of Fixed Maturity Securities, Valuation of Equity Securities and Valuation of Derivative Instruments. Other trading account assets also includes collateral assets we hold under TALF, as described above in Valuation of Long-Term Debt.

Valuation of Cash Equivalents and Short-term Investments

Cash equivalents and short-term investments carried at fair value 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 to us for identical assets and are primarily classified as Level 1. The remaining instruments in the Cash Equivalents and Short-term Investments category are typically not traded in active markets; however, their fair values are based on market observable inputs and, accordingly, these investments have been classified within Level 2 in our fair value hierarchy.

Realized Investment Gains and Losses and General Account Investments

Realized Investment Gains and Losses

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 other-than-temporary impairments. 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 on commercial mortgage and other loans, fair value changes on commercial mortgage operations loans, fair value changes on embedded derivatives and derivatives, except those derivatives that qualify for cash flow hedge accounting treatment and those derivatives used in our capacity as a broker or dealer.

We perform quarterly impairment reviews to determine when a decline in value is other-than-temporary. In evaluating whether a decline in value is other-than-temporary, we consistently consider several factors including, but not limited to, the following: (1) the extent and duration of the decline in value; (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. In addition, under FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which we adopted effective January 1, 2009, an other-than-temporary impairment must be recognized for a debt security if we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. With regard to available-for-sale equity securities, we also consider 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 impaired to its fair value, with a corresponding charge to Realized investment gains (losses), net. Under FSP FAS 115-2 and FAS 124-2, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in Realized investment gains (losses), net depends on whether we intend 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 either of these two criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt 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 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).

Prior to our adoption of FSP FAS 115-2 and FAS 124-2, we were required to recognize an other-than-temporary impairment for a debt security unless we could assert that we had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in the debt security s fair value to its amortized cost basis. In light of market conditions and liquidity concerns, beginning in the third quarter of 2008, our determinations of whether the decline in value of a debt security was other-than-temporary placed greater emphasis on our internal analysis of the underlying credit and our ability and intent to hold the investment for a period of time to allow for a recovery of value, versus the extent and duration of a decline in fair value. When we determined that there was an other-than-temporary impairment, we wrote down the carrying value of the debt security to its fair value, with a corresponding charge recorded in Realized investment gains (losses), net. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording fixed maturity other-than-temporary impairments, see General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities below. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording equity impairments, see General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities below.

The level of other-than-temporary impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. However, as discussed in more detail below, certain of the other-than-temporary impairments recognized for the three and six months ended June 30, 2009 and 2008 relate to asset-backed securities collateralized by sub-prime mortgages and reflect the overall deterioration of the housing market. We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. In light of unprecedented market conditions, and in consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we temporarily curtailed the active trading policy of certain portfolios. In the second quarter of 2009, we resumed a more restricted active trading program in these portfolios. Other-than-temporary impairments, interest rate related losses and credit losses (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income. 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, and included in adjusted operating income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

We require most issuers of private fixed maturity securities to pay us make-whole yield maintenance payments when they prepay the securities. Prepayments are driven by factors specific to the activities of our borrowers as well as the interest rate environment.

We use 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. We use derivative contracts to mitigate the risk that unfavorable changes in currency exchange rates will reduce U.S. dollar equivalent earnings generated by certain of our non-U.S. businesses. We also use equity-based derivatives to hedge the equity risks embedded in some of our annuity products. Derivative contracts also include forward purchases and sales of to-be-announced mortgage-backed securities primarily related to our mortgage dollar roll program. Many of these derivative contracts do not qualify for hedge accounting, and, consequently, we recognize the changes in fair value of such contracts from period to period in current earnings, although we do not necessarily account for the related assets or liabilities the same way. Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income.

Adjusted operating income excludes Realized investment gains (losses), net, (other than those representing profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors, and those associated with terminating hedges of foreign currency earnings, current period yield adjustments, or product derivatives and the effect of any related economic hedging program) and related charges and adjustments.

The following tables set forth Realized investment gains (losses), net, by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the three and six months ended June 30, 2009 and 2008, respectively. For a discussion of our general account investment portfolio and related results, including overall income yield and investment income, as well as our policies regarding other-than-temporary declines in investment value and the related methodology for recording impairment charges, see General Account Investments below. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 11 to the Unaudited Interim Consolidated Financial Statements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Realized investment gains (losses), net:				
Financial Services Businesses	$ (1,418)	$ (550)	$ (838)	$ (1,352)
Closed Block Business	(857)	(348)	(1,292)	(458)
Consolidated realized investment gains (losses), net	$ (2,275)	$ (898)	$ (2,130)	$ (1,810)
Financial Services Businesses:				
Realized investment gains (losses), net				
Fixed maturity securities(1)	$ (305)	$ (490)	$ (554)	$ (888)
Equity securities	(114)	(97)	(380)	(153)
Derivative instruments(2)	(804)	88	383	(243)
Other	(195)	(51)	(287)	(68)
Total	(1,418)	(550)	(838)	(1,352)
Related adjustments(3)	546	23	(744)	160
Realized investment gains (losses), net, and related adjustments	$ (872)	$ (527)	$ (1,582)	$ (1,192)
Related charges(4)	$ (5)	$ 41	$ 39	$ 28
Closed Block Business:				
Realized investment gains (losses), net				
Fixed maturity securities(1)	$ (187)	$ (187)	$ (297)	$ (215)
Equity securities	(204)	(113)	(439)	(206)
Derivative instruments	(415)	(42)	(452)	(28)
Other	(51)	(6)	(104)	(9)

Total	$ (857)	$ (348)	$ (1,292)	$ (458)

(1) The Financial Services Businesses include $209 million and $449 million in the three and six months ended June 30, 2009, respectively, and $375 million and $665 million in the three and six months ended June 30, 2008, respectively, related to other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages. The Closed Block Business includes $100 million and $201 million in the three and six months ended June 30, 2009, respectively, and $166 million and $279 million in the three and six months ended June 30, 2008, respectively, related to other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages.

(2) The Financial Services Businesses include $144 million and $6 million of gains in the three and six months ended June 30, 2009, respectively, and $22 million of gains and $186 million of losses in the three and six months ended June 30, 2008, respectively, related to embedded derivatives associated with certain externally managed investments in the European market.

(3) Related adjustments include that portion of Realized investment gains (losses), net, that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those that represent profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors. Related adjustments also include that portion of Asset management fees and other income that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure as well as counterparty credit losses on derivative positions. See Note 11 to the Unaudited Interim Consolidated Financial Statements for additional information on these related adjustments.

(4) Reflects charges that are related to realized investment gains (losses), net, and excluded from adjusted operating income, as described more fully in Note 11 to the Unaudited Interim Consolidated Financial Statements.

2009 to 2008 Three Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in the second quarter of 2009 were $1,418 million, compared to net realized investment losses of $550 million in the second quarter of 2008.

Net realized losses on fixed maturity securities were $305 million in the second quarter of 2009, compared to net realized losses of $490 million in the second quarter of 2008, as set forth in the following table:

	Three Months Ended June 30,	
	2009	**2008**
	(in milli	