PRUDENTIAL FINANCIAL INC
Form 10-Q
May 04, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey	**22-3703799**
(State or Other Jurisdiction of Incorporation or Organization)	**(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨

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 March 31, 2006, 492 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 stock, real estate and other financial markets; (2) interest rate fluctuations; (3) reestimates of our reserves for future policy benefits and claims; (4) 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; (5) changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill; (6) changes in our claims-paying or credit ratings; (7) investment losses and defaults; (8) competition in our product lines and for personnel; (9) changes in tax law; (10) economic, political, currency and other risks relating to our international operations; (11) fluctuations in foreign currency exchange rates and foreign securities markets; (12) regulatory or legislative changes; (13) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (14) 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; (15) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (16) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions; (17) changes in statutory or U.S. GAAP accounting principles, practices or policies; (18) changes in assumptions for retirement expense; (19) Prudential Financial, Inc. s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and continue share repurchases, and the applicable regulatory restrictions on the ability of the subsidiaries to pay such dividends or distributions; and (20) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in the Annual Report on Form 10-K for the year ended December 31, 2005 for discussion of certain risks relating to our businesses and investment in our securities.

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

PART I FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

March 31, 2006 and December 31, 2005 (in millions, except share amounts)

	March 31, 2006	December 31, 2005
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: 2006 $150,614; 2005 $149,365)	$ 153,816	$ 155,153
Held to maturity, at amortized cost (fair value: 2006 $3,507; 2005 $3,345)	3,537	3,362
Trading account assets supporting insurance liabilities, at fair value	13,877	13,781
Other trading account assets, at fair value	2,358	1,443
Equity securities, available for sale, at fair value (cost: 2006 $4,432; 2005 $4,179)	5,490	5,011
Commercial loans	24,875	24,441
Policy loans	8,497	8,370
Securities purchased under agreements to resell	103	413
Other long-term investments	5,817	5,468
Short-term investments	3,835	3,959
Total investments	222,205	221,401
Cash and cash equivalents	8,598	7,799
Accrued investment income	2,150	2,067
Reinsurance recoverables	3,480	3,548
Deferred policy acquisition costs	9,858	9,438
Other assets	17,192	15,962
Separate account assets	170,134	157,561
TOTAL ASSETS	$ 433,617	$ 417,776
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Future policy benefits	$ 103,067	$ 102,111
Policyholders account balances	75,973	75,420
Policyholders dividends	3,539	4,413
Reinsurance payables	2,994	3,069
Securities sold under agreements to repurchase	12,799	12,517
Cash collateral for loaned securities	5,749	5,818
Income taxes payable	2,597	2,214

Securities sold but not yet purchased	132	223
Short-term debt	11,356	11,114
Long-term debt	9,034	8,270
Other liabilities	13,909	12,283
Separate account liabilities	170,134	157,561
Total liabilities	411,283	395,013
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)		
STOCKHOLDERS EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)		
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 604,899,107 and 604,899,046 shares issued as of March 31, 2006 and December 31, 2005, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding as of March 31, 2006 and December 31, 2005, respectively)		
Additional paid-in capital	20,524	20,501
Common Stock held in treasury, at cost (113,037,109 and 107,405,004 shares as of March 31, 2006 and December 31, 2005, respectively)	(5,443)	(4,925)
Accumulated other comprehensive income	595	1,234
Retained earnings	6,652	5,947
Total stockholders equity	22,334	22,763
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 433,617	$ 417,776

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three Months Ended March 31, 2006 and 2005 (in millions, except per share amounts)

	Three Months Ended March 31,	
	2006	**2005**
REVENUES		
Premiums	$ 3,458	$ 3,350
Policy charges and fee income	664	614
Net investment income	2,739	2,551
Realized investment gains (losses), net	176	473
Asset management fees and other income	890	725
Total revenues	7,927	7,713
BENEFITS AND EXPENSES		
Policyholders benefits	3,486	3,438
Interest credited to policyholders account balances	623	553
Dividends to policyholders	624	608
General and administrative expenses	2,153	1,796
Total benefits and expenses	6,886	6,395
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,041	1,318
Income tax expense	305	388
INCOME FROM CONTINUING OPERATIONS	736	930
Loss from discontinued operations, net of taxes	(3)	(1)
NET INCOME	$ 733	$ 929
EARNINGS PER SHARE (See Note 6)		
Financial Services Businesses		
Basic:		
Income from continuing operations per share of Common Stock	$ 1.41	$ 1.51
Loss from discontinued operations, net of taxes	(0.01)	
Net income per share of Common Stock	$ 1.40	$ 1.51
Diluted:		

Income from continuing operations per share of Common Stock	$ 1.38	$ 1.49
Loss from discontinued operations, net of taxes		
Net income per share of Common Stock	$ 1.38	$ 1.49
Closed Block Business		
Net income per share of Class B Stock basic and diluted	$ 19.50	$ 70.50

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statement of Stockholders Equity

Three Months Ended March 31, 2006 (in millions)

	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance, December 31, 2005	$ 6	$	$ 20,501	$ 5,947	$ (4,925)	$ 1,234	$ 22,763
Common Stock acquired					(623)		(623)
Stock-based compensation programs			23	(28)	105		100
Comprehensive income:							
Net income				733			733
Other comprehensive loss, net of taxes						(639)	(639)
Total comprehensive income							94
Balance, March 31, 2006	$ 6	$	$ 20,524	$ 6,652	$ (5,443)	$ 595	$ 22,334

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Three Months Ended March 31, 2006 and 2005 (in millions)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 733	$ 929
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(176)	(473)
Policy charges and fee income	(216)	(235)
Interest credited to policyholders account balances	623	553
Depreciation and amortization, including premiums and discounts	84	119
Change in:		
Deferred policy acquisition costs	(235)	(152)
Future policy benefits and other insurance liabilities	639	723
Trading account assets supporting insurance liabilities and other trading account assets	(807)	(59)
Income taxes payable	631	63
Securities sold but not yet purchased	(91)	39
Other, net	(740)	(968)
Cash flows from operating activities	445	539
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	23,460	20,927
Fixed maturities, held to maturity	89	117
Equity securities, available for sale	966	752
Commercial loans	1,068	1,413
Policy loans	319	333
Other long-term investments	458	650
Short-term investments	2,407	3,284
Payments for the purchase of:		
Fixed maturities, available for sale	(23,425)	(26,800)
Fixed maturities, held to maturity	(257)	(803)
Equity securities, available for sale	(1,048)	(877)
Commercial loans	(997)	(892)
Policy loans	(346)	(280)
Other long-term investments	(323)	(457)
Short-term investments	(2,501)	(3,742)
Other, net	248	721
Cash flows from (used in) investing activities	118	(5,654)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	4,931	4,419
Policyholders account withdrawals	(5,137)	(4,152)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	210	1,956
Cash dividends paid on Common Stock	(44)	(37)
Net change in financing arrangements (maturities 90 days or less)	(15)	3,670

Common Stock acquired	(604)	(366)
Common Stock reissued for exercise of stock options	50	49
Proceeds from the issuance of debt (maturities longer than 90 days)	1,132	323
Repayments of debt (maturities longer than 90 days)	(223)	(545)
Cash payments to or in respect of eligible policyholders	(92)	(91)
Excess tax benefits from share-based payment arrangements	33	
Other, net	(2)	261
Cash flows from financing activities	239	5,487
Effect of foreign exchange rate changes on cash balances	(3)	53
NET INCREASE IN CASH AND CASH EQUIVALENTS	799	425
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,799	8,072
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,598	$ 8,497

See Notes to Unaudited Interim Consolidated Financial Statements

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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 retail and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, mutual funds, pension and retirement related investments and administration, and asset management. In addition, the Company provides securities brokerage services indirectly through a minority ownership in a joint venture. 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: Insurance, Investment, and International Insurance and Investments. Businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 4), 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 policyholder 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 has 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.

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, 2005.

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 at 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, goodwill, valuation of business acquired, investments, future policy benefits, pension and other postretirement benefits, provision for income taxes, reserves for contingent liabilities and 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

2. ACCOUNTING POLICIES AND PRONOUNCEMENTS

Accounting Pronouncements Adopted

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. This FSP provides impairment models for determining whether to record impairment losses associated with investments in certain equity and debt securities, primarily by referencing existing accounting guidance. It also requires income to be accrued on a level-yield basis following an impairment of debt securities, where reasonable estimates of the timing and amount of future cash flows can be made. The Company adopted this guidance effective January 1, 2006, and it did not have a material effect on the Company s consolidated results of operations.

In June 2005, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on Issue No. 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights. This Issue first presumes that general partners in a limited partnership control that partnership and should therefore consolidate that partnership, and then provides that the general partners may overcome the presumption of control if the limited partners have: (1) the substantive ability to dissolve or liquidate the limited partnership, or otherwise to remove the general partners without cause or (2) the ability to participate effectively in significant decisions that would be expected to be made in the ordinary course of the limited partnership s business. This guidance became effective for new or amended arrangements after June 29, 2005, and became effective January 1, 2006 for all arrangements existing as of June 29, 2005 that remain unmodified. While the Company serves as the general partner of limited partnerships in the ordinary course of conducting certain of its business operations, adoption of this guidance to arrangements existing as of June 29, 2005 did not have a material effect on the Company s consolidated financial position or results of operations.

In June 2005, the FASB issued Statement No. 133 Implementation Issue No. B39, Embedded Derivatives: Application of Paragraph 13(b) to Call Options That are Exercisable Only by the Debtor. Implementation Issue No. B39 indicates that debt instruments where the right to accelerate the settlement of debt can be exercised only by the debtor do not meet the criteria of Paragraph 13(b) of Statement No. 133, and therefore should not individually lead to such options being considered embedded derivatives. Such options must still be evaluated under paragraph 13(a) of Statement No. 133. This implementation guidance is effective for the first fiscal quarter beginning after December 15, 2005. The Company s adoption of this guidance effective January 1, 2006 did not have a material effect on the Company s consolidated financial position or results of operations as the guidance is consistent with the Company s existing accounting policy.

Adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment

The Company adopted SFAS No. 123(R), Share-Based Payment on January 1, 2006. This standard requires that the cost resulting from all share-based payments be recognized in the financial statements and requires all entities to apply the fair value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. As described more fully below, the Company had previously adopted the fair value recognition provisions of SFAS No. 123, Accounting for

Stock-Based Compensation, as amended, prospectively for all new stock options granted to employees on or after January 1, 2003. Upon adoption of FAS No. 123(R), there were no unvested stock options issued prior to January 1, 2003, and, therefore, the adoption of SFAS No. 123(R) had no impact to the Company s consolidated financial condition or results of operations. In addition, 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, as described more fully below.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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. For awards granted prior to January 1, 2006 that specify an employee vests in the award upon retirement, the Company accounts for those awards 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 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. The Company continues to apply the nominal vesting period approach for the portion of unvested outstanding awards issued prior to the adoption of SFAS No. 123(R).

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 months ended March 31, 2006 would have been increased by $0.2 million, which would not have changed reported net income per share of Common Stock. Net income of the Financial Services Businesses for the three months ended March 31, 2005, would have been decreased by $2.6 million or $0.01 and $0.01 per share of Common Stock, respectively, on both a basic and diluted basis.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

As noted above, effective January 1, 2003, the Company changed its accounting for employee stock options to adopt the fair value recognition provisions of SFAS No. 123, as amended, prospectively for all new stock options granted to employees on or after January 1, 2003. Prior to January 1, 2003, the Company accounted for employee stock options using the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under this method, the Company did not recognize any stock-based compensation expense for employee stock options as all options granted had an exercise price equal to the market value of the underlying Common Stock on the date of grant. If the Company had accounted for all employee stock options granted prior to January 1, 2003 under the fair value-based measurement method of SFAS No. 123, net income and earnings per share for the three months ended March 31, 2006 would have been unchanged, since, as of January 1, 2006, there were no unvested employee stock options issued prior to January 1, 2003. Net income and earnings per share for the three months ended March 31, 2005, would have been as follows:

	Three Months Ended March 31, 2005	
	Financial Services Businesses	Closed Block Business
	(in millions, except per share amounts)	
Net income, as reported	$ 766	$ 163
Add: Total employee stock option compensation expense included in reported net income, net of taxes	6	
Deduct: Total employee stock option compensation expense determined under the fair value based method for all awards, net of taxes	(11)	
Pro forma net income	$ 761	$ 163
Earnings per share:		
Basic as reported	$ 1.51	$ 70.50
Basic pro forma	$ 1.50	$ 70.50
Diluted as reported	$ 1.49	$ 70.50
Diluted pro forma	$ 1.48	$ 70.50

The fair value of each option issued prior to January 1, 2003 for purposes of the pro forma information presented above was estimated on the date of grant using a Black-Scholes option-pricing model. For options issued on or after January 1, 2003, the fair value of each option was estimated on the date of grant using a binomial option-pricing model.

The Company accounts for non-employee stock options using the fair value method in accordance with EITF No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees and related interpretations in accounting for its non-employee stock options.

Recent Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets. This statement requires that servicing assets or liabilities are to be initially measured at fair value, with subsequent changes in value reported based on either a fair value or amortized cost approach. Under the previous guidance, such servicing assets or liabilities were initially measured at historical cost and the amortized cost method was

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

required for subsequent reporting. The Company plans to adopt this guidance effective January 1, 2007. The Company is currently assessing the impact of SFAS No. 156 on the Company s consolidated financial position and results of operations.

On February 16, 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Instruments. This statement provides an election, on an instrument by instrument basis, to measure at fair value an entire hybrid financial instrument that contains an embedded derivative requiring bifurcation, rather than measuring only the embedded derivative on a fair value basis. This statement also removes an exception from the requirement to bifurcate an embedded derivative feature from a beneficial interest in securitized financial assets. The Company has used this exception for investments the Company has made in securitized financial assets in the normal course of operations, and thus has not previously had to consider whether such investments contain an embedded derivative. The new requirement to identify embedded derivatives in beneficial interest will be applied on a prospective basis only to beneficial interest acquired, issued, or subject to certain remeasurement conditions after the adoption date of the new guidance. The Company plans to adopt this guidance effective January 1, 2007. The Company is in the process of determining whether there are any hybrid instruments for which the Company will elect the fair value option.

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract, and is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company will adopt SOP 05-1 on January 1, 2007. The Company is currently assessing the impact of SOP 05-1 on the Company s consolidated financial position and results of operations.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of Allstate Financial s Variable Annuity Business

On March 8, 2006, the Company announced that it had signed an agreement to acquire Allstate Financial s variable annuity business through coinsurance and modified coinsurance reinsurance arrangements. The Company s initial investment in the business will be approximately $560 million consisting of cash consideration in the form of a reinsurance ceding commission of approximately $580 million and additional capital requirements offset by related tax benefits. The transaction is subject to various closing conditions, including state insurance and other regulatory approvals, and is expected to close in the second quarter of 2006.

Acquisition of CIGNA Corporation s (CIGNA) Retirement Business

The Company acquired the retirement business of CIGNA for cash consideration of $2.1 billion on April 1, 2004 and the results of this business have been included in the Company s consolidated results since the date of acquisition. As an element of the acquisition, the Company had the right, beginning two years after the acquisition, to commute the modified-coinsurance-with-assumption arrangement related to the acquired defined benefit guaranteed-cost contracts in exchange for cash consideration from CIGNA. Effective April 1, 2006, the Company reached an agreement with CIGNA to convert the modified-coinsurance-with-assumption arrangement to a coinsurance-with-assumption arrangement, effectively retaining the economics of the defined benefit guaranteed-cost contracts for the life of the block of business.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Discontinued Operations

Loss from discontinued businesses, including charges upon disposition, are as follows:

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Dryden Wealth Management	$ (2)	$ (9)
International securities operations	(2)	(4)
Healthcare operations		18
Income (loss) from discontinued operations before income taxes	(4)	5
Income tax expense (benefit)	(1)	6
Loss from discontinued operations, net of taxes	$ (3)	$ (1)

The Company s Unaudited Interim Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses of $240 million and $197 million, respectively, as of March 31, 2006 and $258 million and $207 million, respectively, as of December 31, 2005. 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.

4. 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 Company established a separate closed block for participating individual life insurance policies issued by the Canadian branch of Prudential Insurance. Due to the substantially smaller number of outstanding Canadian policies, this separate closed block is insignificant in size and is not included in the information presented below.

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 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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. At March 31, 2006, the Company recognized a policyholder dividend obligation of $340 million to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block were reflected as a policyholder dividend obligation of $1.461 billion at March 31, 2006 to be paid to Closed Block policyholders unless otherwise offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss).

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	March 31, 2006	December 31, 2005
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 50,157	$ 50,112
Policyholders dividends payable	1,151	1,089
Policyholder dividend obligation	1,801	2,628
Policyholders account balances	5,562	5,568
Other Closed Block liabilities	10,800	9,676
Total Closed Block Liabilities	69,471	69,073
Closed Block Assets		
Fixed maturities, available for sale, at fair value	45,243	45,564
Equity securities, available for sale, at fair value	3,340	2,967
Commercial loans	6,643	6,750
Policy loans	5,403	5,403
Other long-term investments	848	923
Short-term investments	1,382	1,340
Total investments	62,859	62,947
Cash and cash equivalents	2,532	2,167
Accrued investment income	694	658
Other Closed Block assets	377	286
Total Closed Block Assets	66,462	66,058
Excess of reported Closed Block Liabilities over Closed Block Assets	3,009	3,015
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains	1,554	2,402
Allocated to policyholder dividend obligation	(1,461)	(2,302)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 3,102	$ 3,115

Information regarding the policyholder dividend obligation is as follows:

	Three Months Ended March 31, 2006
	(in millions)
Balance, January 1, 2006	$ 2,628
Impact on income before gains allocable to policyholder dividend obligation	14
Change in unrealized investment gains	(841)
Balance, March 31, 2006	$ 1,801

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three months ended March 31, 2006 and 2005 were as follows:

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Revenues		
Premiums	$ 846	$ 845
Net investment income	864	849
Realized investment gains (losses), net	59	204
Other income	13	15
Total Closed Block revenues	1,782	1,913
Benefits and Expenses		
Policyholders benefits	932	942
Interest credited to policyholders account balances	36	36
Dividends to policyholders	603	571
General and administrative expenses	183	180
Total Closed Block benefits and expenses	1,754	1,729
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	28	184
Income tax expense	15	94
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	$ 13	$ 90

5. STOCKHOLDERS 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, 2005	604.9	107.4	497.5	2.0
Common Stock issued				
Common Stock acquired		8.2	(8.2)	
Stock-based compensation programs(1)		(2.6)	2.6	
Balance, March 31, 2006	604.9	113.0	491.9	2.0

(1) Represents net shares issued from Treasury pursuant to the Company s stock-based compensation program.

Common Stock Held in Treasury

In November 2005, Prudential Financial s Board of Directors authorized the Company to repurchase up to $2.5 billion of its outstanding Common Stock in calendar year 2006. The timing and amount of any repurchases under this authorization are determined by management based upon market conditions and other considerations, and the repurchases may be effected in the open market or through negotiated transactions. The 2006 stock repurchase program supersedes all previous repurchase programs. During the first three months of 2006, the Company acquired 8.2 million shares of its Common Stock at a total cost of $623 million.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(in millions)	
Net income	$ 733	$ 929
Other comprehensive income (loss), net of taxes:		
Change in foreign currency translation adjustments	62	(65)
Change in net unrealized investments gains (losses)(1)	(700)	(514)
Additional pension liability adjustment	(1)	(2)
Other comprehensive income(2)	(639)	(581)
Comprehensive income	$ 94	$ 348

(1) Includes cash flow hedges of $(7) million and $14 million for the three months ended March 31, 2006 and 2005, respectively.
(2) Amounts are net of taxes of $(344) million and $(261) million for the three months ended March 31, 2006 and 2005, respectively.

The balance of and changes in each component of Accumulated other comprehensive income for the three months ended March 31, 2006 are as follows (net of taxes):

	Accumulated Other Comprehensive Income (Loss)			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)(1)	Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)

		(in millions)		
Balance, December 31, 2005	$ (75)	$ 1,576	$ (267)	$ 1,234
Change in component during period	62	(700)	(1)	(639)
Balance, March 31, 2006	$ (13)	$ 876	$ (268)	$ 595

(1) Includes cash flow hedges of $(85) million and $(78) million at March 31, 2006 and December 31, 2005, respectively.

6. EARNINGS PER SHARE

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

Net income for the Financial Services Businesses and the Closed Block Business is determined in accordance with U.S. GAAP and includes general and administrative expenses charged to each of the respective businesses based on the Company s methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31,					
	2006			2005		
	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	$ 678			$ 767		
Direct equity adjustment	19			22		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 697	494.6	$ 1.41	$ 789	521.8	$ 1.51
Effect of dilutive securities and compensation programs						
Stock options		6.5			5.5	
Deferred and long-term compensation programs		3.0			2.7	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 697	504.1	$ 1.38	$ 789	530.0	$ 1.49

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. The notes will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above $90.00.

For the three months ended March 31, 2006 and 2005, 1.5 million and 2.3 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $75.99 and $55.71 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.

Class B Stock

Net income per share of Class B Stock was $19.50 and $70.50 for the three months ended March 31, 2006 and 2005, respectively.

The net income attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the three months ended March 31, 2006 and 2005 amounted to $39 million and $141 million, respectively. The direct equity adjustment resulted in a decrease in the net income attributable to the

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block Business applicable to holders of Class B Stock for earnings per share purposes of $19 million and $22 million for the three months ended March 31, 2006 and 2005, respectively. For the three months ended March 31, 2006 and 2005, the weighted average number of shares of Class B Stock used in the calculation of earnings per share amounted to two million. There are no potentially dilutive shares associated with the Class B Stock.

7. SHARE-BASED PAYMENTS

In March 2003, the Company s Board of Directors adopted the Prudential Financial, Inc. Omnibus Incentive Plan (the Omnibus Plan). Upon adoption of the Omnibus Plan, the Prudential Financial, Inc. Stock Option Plan previously adopted by the Company on January 9, 2001 (the Option Plan) was merged into the Omnibus Plan. The nature of stock based awards provided under the Omnibus Plan are stock options, stock appreciation rights, restricted stock shares, restricted stock units, and equity-based performance awards (performance shares). Dividend equivalents are provided on restricted stock shares, restricted stock units and performance shares. Generally, the requisite service period is the vesting period.

As of March 31, 2006, 47,236,643 authorized shares remain available for grant under the Omnibus Plan including previously authorized but unissued shares under the Option Plan.

The Company s policy is to issue shares from Common Stock held in treasury upon exercise of employee and non-employee stock options as well as for the vesting of restricted stock shares, restricted stock units, and performance shares.

Compensation Costs

Compensation cost for employee stock options is based on the fair values estimated on the grant date, while compensation cost for non-employee stock options is re-estimated at each period-end through the vesting date, using the approach and assumptions described below. Compensation cost for restricted stock shares, restricted stock units and performance shares granted to employees is measured by the share price of the underlying Common Stock at the date of grant. Compensation cost for restricted stock shares and restricted stock units granted to non-employees is measured by the share price as of the balance sheet date for unvested shares and the share price at the vesting date for vested shares.

The fair value of each stock option award is estimated on the date of grant for stocks options issued to employees and the balance sheet date or vesting date for stock options issued to non-employees using a binomial option valuation model that uses the following assumptions:

	Three Months Ended March 31,	
	2006	2005
Expected volatility	20.65%	23.77%
Weighted-average volatility	20.65%	23.77%
Expected dividend yield	1.20%	1.20%
Expected term	5.14 years	5.19 years
Risk-free interest rate	4.57%	3.73%

Expected volatilities are based on implied volatilities from traded options on the Company s Common Stock, historical volatility of the Company s Common Stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The expected term of options granted is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following chart summarizes the compensation cost recognized and the related income tax benefit for stock options, restricted stock shares, restricted stock units, and performance share awards for the three months ended March 31, 2006:

	Total Compensation Cost Recognized	Income Tax Benefit
	(in millions)	
Employee stock options	$ 25	$ 9
Non-employee stock options	2	1
Employee restricted stock shares, restricted stock units, and performance shares	26	9
Non-employee restricted stock shares, restricted stock units, and performance shares		
Total	$ 53	$ 19

Stock Options

Each stock option granted has an exercise price no less than the fair market value of the Company s Common Stock on the date of grant and has a maximum term of 10 years. Generally, one third of the option grant vests in each of the first three years. Participants are employees and non-employees (i.e., statutory agents who perform services for the Company and participating subsidiaries).

A summary of stock option activity under the Omnibus Plan as of December 31, 2005 and changes during the three months ended March 31, 2006 were as follows:

	Employee Stock Options		Non-employee Stock Options	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

Outstanding at December 31, 2005	19,806,454	$ 38.82	601,870	$ 35.66
Granted	2,845,162	76.15	60,559	76.29
Exercised	(1,369,079)	35.71	(55,065)	32.17
Forfeited	(138,730)	52.18	(21,660)	30.77
Expired				
Transferred				
Outstanding at March 31, 2006	21,143,807	$ 43.96	585,704	$ 40.37
Vested and expected to vest at March 31, 2006	19,550,024	$ 42.27	528,873	$ 38.03
Exercisable at March 31, 2006	14,116,274	$ 35.24	363,773	$ 29.25

The weighted average grant date fair value of employee stock options granted during the three months ended March 31, 2006 and 2005 was $17.83 and $12.89, respectively. The total intrinsic value of employee stock options exercised during the three months ended March 31, 2006 and 2005 was $55 million and $36 million, respectively.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The weighted average balance sheet date fair value for non-employee stock options granted during the three months ended March 31, 2006 and 2005 was $17.74 and $13.24, respectively. The total intrinsic value of non-employee options exercised during the three months ended March 31, 2006 and 2005 was $2 million and $3 million, respectively.

The weighted average remaining contractual term and the aggregate intrinsic value of stock options outstanding and exercisable as of March 31, 2006 is as follows:

	March 31, 2006			
	Employee Stock Options		Non-employee Stock Options	
	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in years)	(in millions)	(in years)	(in millions)
Outstanding	7.58	$ 674	7.20	$ 21
Vested and expected to vest	7.42	$ 656	6.94	$ 20
Exercisable	6.86	$ 573	6.20	$ 17

Restricted Stock Shares, Restricted Stock Units, and Performance Share Awards

A restricted stock share represents a grant of Common Stock to employee and non-employee participants that is subject to certain transfer restrictions and forfeiture provisions for a specified period of time. A restricted stock unit is an unfunded, unsecured right to receive a share of Common Stock at the end of a specified period of time, which is also subject to forfeiture and transfer restrictions. Generally, the restrictions on restricted stock shares and restricted stock units will lapse on the third anniversary of the date of grant. Restricted stock shares subject to the transfer restrictions and forfeiture provisions are considered non vested shares and are not reflected as outstanding shares until the restrictions expire. Performance share awards are awards of units denominated in Common Stock. The number of units is determined over the performance period, and may be adjusted based on the satisfaction of certain performance goals. Performance share awards are payable in Common Stock.

Employee restricted stock shares, restricted stock units and performance shares as of December 31, 2005 and changes during the three months ended March 31, 2006 were as follows:

	Restricted Stock Shares	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Shares(1)	Weighted Average Grant Date Fair Value
Restricted at December 31, 2005	2,391,757	$ 39.03	1,213,644	$ 53.67	1,139,696	$ 46.63
Granted			1,572,144	76.30	322,764	76.15
Forfeited	(28,449)	44.22	(36,659)	63.79		
Performance adjustment(2)					118,467	33.61
Released	(1,260,867)	34.00	(123,603)	33.71	(355,400)	33.61
Restricted at March 31, 2006	1,102,441	$ 44.77	2,625,526	$ 68.01	1,225,527	$ 56.92

(1) Performance shares reflect the target awarded, reduced for cancellations and vestings to date. The actual number of shares to be awarded at the end of each performance period will range between 50% and 150% of this target based upon a measure of the reported performance for the Company s Financial Services Businesses relative to stated goals.

(2) Represents additional shares issued based upon the attainment of performance goals for the Company s Financial Services Businesses.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The fair value of employee share awards released for the three months ended March 31, 2006 and 2005 was $131 million and $3 million, respectively.

Non-employee restricted stock shares, restricted stock units and performance shares as of December 31, 2005 and changes during the three months ended March 31, 2006 were as follows:

	Restricted Stock Shares	Weighted Average Balance Sheet Date Fair Value	Restricted Stock Units	Weighted Average Balance Sheet Date Fair Value
Restricted at December 31, 2005	21,019	$ 73.19	12,504	$ 73.19
Granted			125,243	76.40
Forfeited	(389)	38.56	(587)	66.21
Released	(11,617)	33.61		
Restricted at March 31, 2006	9,013	$ 75.81	137,160	$ 75.81

The fair value of non-employee share awards released for the three months ended March 31, 2006, was $1 million. There were no awards released during the three months ended March 31, 2005.

Unrecognized Compensation Cost

Unrecognized compensation cost for employee stock options as of March 31, 2006 was $78 million with a weighted average recognition period of 2.08 years. Unrecognized compensation cost for employee restricted stock awards, restricted stock units, and performance share awards as of March 31, 2006 was $212 million with a weighted average recognition period of 2.22 years.

Unrecognized compensation cost for non-employee stock options as of March 31, 2006 was $3 million with a weighted average recognition period of 1.51 years. Unrecognized compensation cost for non-employee restricted stock awards, restricted stock units, and performance share awards as of March 31, 2006 was $1 million with a weighted average recognition period of 2.23 years.

Cash Received Upon Exercise of Stock Options and Tax Benefits Realized

Cash received for the exercise of 1,424,144 shares of employee and non-employee stock options combined for the three months ended March 31, 2006 was $51 million. The tax benefit realized for exercises of employee and non-employee stock options during the three months ended March 31, 2006 was $16 million. The tax benefit realized upon vesting of restricted stock shares, restricted stock units, and performance shares for the three months ended March 31, 2006 was $38 million.

8. 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 a notional account balance that increases based on age, service and salary during their career.

The Company provides certain life insurance and health care 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 40	$ 41	$ 3	$ 3
Interest cost	104	104	32	36
Expected return on plan assets	(185)	(199)	(22)	(20)
Amortization of prior service cost	6	6	(2)	(1)
Amortization of actuarial (gain) loss, net	12	6	4	9
Special termination benefits	2	6		
Net periodic (benefit) cost	$ (21)	$ (36)	$ 15	$ 27

9. 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. Businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested are included in Corporate and Other operations. Collectively, the businesses that comprise the three operating divisions and Corporate and Other are referred to as the Financial Services Businesses.

Adjusted Operating Income

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using adjusted operating income. Adjusted operating income does not equate to income from continuing operations before income taxes 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 from continuing operations before income taxes to exclude the following items, which are described in greater detail below:

- 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; and

- 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.

The excluded 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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 losses is impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles and can vary considerably across periods. The timing of other sales that would result in gains or losses is largely subject to the Company s discretion and influenced by market opportunities. 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, which are offset against net realized investment gains and losses in the schedules below, relate to policyholder dividends; amortization of deferred policy acquisition costs, valuation of business acquired (VOBA) and unearned revenue reserves; interest credited to policyholders account balances; reserves for future policy benefits; payments associated with the market value adjustment features related to certain of the annuity products we sell; and minority interest in consolidated operating subsidiaries. The related charges associated with policyholder dividends include a percentage of net realized investment gains on specified Gibraltar Life assets that is required to be paid as dividends to Gibraltar Life policyholders. Deferred policy acquisition costs, VOBA and unearned revenue reserves 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 represent the portion of this amortization associated with net realized investment gains and losses. The related charges for interest credited to policyholders account balances relate to certain group life policies that pass back certain realized investment gains and losses to the policyholder. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment. Certain of our 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. Minority interest expense is recorded for the earnings of consolidated subsidiaries owed to minority investors. The related charge for minority interest in consolidated operating subsidiaries represents the portion of these earnings associated with net realized investment gains and losses.

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 and International Investments segments reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments results of operations in all countries for a particular year, including its interim reporting periods, are translated at

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 sale contracts with third parties in 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 non-U.S. 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 (gains of $6 million and losses of $36 million for the three months ended March 31, 2006 and 2005, respectively). As of March 31, 2006 and December 31, 2005, the fair value of open contracts used for this purpose was a net asset of $91 million and a net asset of $110 million, respectively.

The Company uses interest 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 investments. Adjusted operating income includes gains of $5 million and gains of $18 million for the three months ended March 31, 2006 and 2005, respectively, due to periodic settlements and yield adjustments of such contracts.

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 GAAP) are also included in adjusted operating income in the period in which the gains or losses on the derivative portfolio are recorded. For the three months ended March 31, 2006, adjusted operating income includes gains of $3 million related to these products and any associated derivative portfolio. There were no adjustments for the three months ended March 31, 2005.

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 that are marked to market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. Adjusted operating income includes a portion of the cumulative realized investment gains on these embedded derivatives on an amortizing basis over the remaining life of the securities. However, adjusted operating income includes any cumulative realized investment losses immediately. Adjusted operating income includes losses of $1 million for the three months ended March 31, 2006 related to these embedded derivatives. There were no adjustments for the three months ended March 31, 2005.

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

Within the Company s Asset Management segment, its commercial mortgage operations originate loans for sale, including through securitization transactions. The Realized investment gains (losses), net associated with these loans, including related derivative results and retained mortgage servicing rights, are a principal source of

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

earnings for this business and are included in adjusted operating income. Also within the Company s Asset Management segment, its 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 are a principal source of earnings for this business and are included in adjusted operating income. In addition, Realized gains (losses), net from derivatives used to hedge certain foreign currency-denominated proprietary investments are included in adjusted operating income. Net realized investment gains of $43 million related to these businesses were included in adjusted operating income for both the three months ended March 31, 2006 and 2005.

The Company s Japanese insurance operations invest in reverse dual currency fixed maturities and loans, which pay interest in U.S. dollars, while the principal is payable in Japanese Yen. For fixed maturities that are categorized as held to maturity, and loans where the Company s intent is to hold them to maturity, the change in value related to foreign currency fluctuations associated with the U.S. dollar interest payments is recorded in Asset management fees and other income. Since these investments will be held until maturity, the foreign exchange impact will ultimately be realized as net investment income as earned and therefore the impact of currency fluctuations is excluded from current period adjusted operating income. This change in value related to foreign currency fluctuations recorded within Asset management fees and other income is excluded from adjusted operating income as an adjustment to Realized investment gains (losses), net, and was a decrease of $9 million for the three months ended March 31, 2006. There were no adjustments for the three months ended March 31, 2005.

As part of the acquisition of CIGNA s retirement business, the Company entered into reinsurance agreements with CIGNA, including a modified-coinsurance-with-assumption arrangement that applies to the defined benefit guaranteed-cost contracts acquired. The net results of these contracts are recorded in Asset management fees and other income, as a result of the reinsurance arrangement, and such net results include realized investment gains and losses. These realized investment gains and losses are excluded from adjusted operating income as an adjustment to Realized investment gains (losses), net. There were no adjustments for the three months ended March 31, 2006. Net realized investment gains of $12 million were excluded for the three months ended March 31, 2005.

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 business acquired from CIGNA, as well as certain products included in the International Insurance segment, are experience-rated in that investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding mortgage loans, are classified as trading. 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. Investment income for these investments is reported in Net investment income. Mortgage 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 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, as discussed above. In addition, to be consistent with the historical treatment of charges related to realized gains and losses on available for sale securities, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including mortgage loans) supporting these experience-rated contracts, which are reflected in Interest credited to policyholders account balances. The result of this approach is that adjusted

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

operating income for these products includes only 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 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.

The summary below reconciles adjusted operating income to income from continuing operations before income taxes:

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:		
Individual Life and Annuities	$ 251	$ 217
Group Insurance	47	38
Total Insurance Division	298	255
Asset Management	169	134
Financial Advisory	(66)	15
Retirement	137	155
Total Investment Division	240	304
International Insurance	338	285
International Investments	44	25
Total International Insurance and Investments Division	382	310
Corporate Operations	16	6
Real Estate and Relocation Services	10	11
Total Corporate and Other	26	17
Adjusted Operating Income before income taxes for Financial Services Businesses	946	886

Items excluded from Adjusted Operating Income:		
Realized investment gains (losses), net, and related adjustments	51	257
Charges related to realized investment gains (losses), net		(21)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(114)	(132)
Change in experience-rated contractholder liabilities due to asset value changes	66	88
Divested businesses	8	(5)
Income from continuing operations before income taxes for Financial Services Businesses	957	1,073
Income from continuing operations before income taxes for Closed Block Business	84	245
Income from continuing operations before income taxes	$ 1,041	$ 1,318

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The 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 March 31,	
	2006	2005
	(in millions)	
Financial Services Businesses:		
Individual Life and Annuities	$ 1,012	$ 956
Group Insurance	1,109	1,052
Total Insurance Division	2,121	2,008
Asset Management	502	418
Financial Advisory	178	112
Retirement	1,054	943
Total Investment Division	1,734	1,473
International Insurance	1,955	1,900
International Investments	150	128
Total International Insurance and Investments Division	2,105	2,028
Corporate Operations	99	14
Real Estate and Relocation Services	68	70
Total Corporate and Other	167	84
Total	6,127	5,593
Items excluded from Adjusted Operating Income:		
Realized investment gains (losses), net, and related adjustments	51	257
Charges related to realized investment gains (losses), net	2	(3)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(114)	(132)
Divested businesses	10	17

Total Financial Services Businesses	6,076	5,732
Closed Block Business	1,851	1,981
Total per Unaudited Interim Consolidated Financial Statements	$ 7,927	$ 7,713

The Asset Management segment revenues include intersegment revenues of $91 million and $93 million for the three months ended March 31, 2006 and 2005, 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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PRUDENTIAL FINANCIAL, INC.

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:

	March 31, 2006	December 31, 2005
	(in millions)	
Individual Life and Annuities	$ 92,990	$ 89,313
Group Insurance	33,182	27,466
Total Insurance Division	126,172	116,779
Asset Management	33,338	29,600
Financial Advisory	2,088	1,929
Retirement	120,152	119,259
Total Investment Division	155,578	150,788
International Insurance	55,564	54,186
International Investments	5,550	4,915
Total International Insurance and Investments Division	61,114	59,101
Corporate Operations	16,980	17,570
Real Estate and Relocation Services	1,047	1,053
Total Corporate and Other	18,027	18,623
Total Financial Services Businesses	360,891	345,291
Closed Block Business	72,726	72,485
Total per Unaudited Interim Consolidated Financial Statements	$ 433,617	$ 417,776

10. CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Contingent Liabilities

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

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

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of our businesses and operations that are specific to the Company and proceedings that are typical of the businesses in which the Company operates, including in both cases businesses that have either been divested or placed in wind-down status. Some of these

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 Company continues to actively seek a global resolution of the investigations into market timing activities at the former Prudential Securities (PSI) with the Securities and Exchange Commission, the United States Attorney, District of Massachusetts, the New York Attorney General s Office, the New York Stock Exchange, the National Association of Securities Dealers, the New Jersey Bureau of Securities and the Securities Division of Massachusetts. While not assured, the Company currently expects to achieve such a settlement without material additions to the Company s reserve for estimated settlement costs. If achieved, any settlement would involve fines and penalties and could involve continuing monitoring and changes to and/or supervision of business practices, findings that may adversely affect existing litigation or cause additional litigation, adverse publicity and other adverse impacts to the Company s businesses.

The Company s subsidiary, American Skandia Life Assurance Corporation, has commenced 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.

In March 2006, in *Azar v. Prudential Insurance*, the modal premium class action, the New Mexico District Court reiterated its denial of a multi-state class and maintained the certification of a class of New Mexico resident purchasers of Prudential life insurance. The court also indicated it would enter judgment on liability against Prudential for the New Mexico class.

In April 2006, in *CHS Electronics, Inc. v. Credit Suisse First Boston Corp., et al*., an action alleging antitrust claims in connection with underwriting fees for initial public offerings, the United States District Court for the Southern District of New York denied class certification.

In *Shane v. Humana*, a provider physician nationwide class action, the United States District Court for the Southern District of Florida entered a final order in September 2005 approving the settlement of these claims by Prudential Insurance, which provides for a payment to plaintiffs in the amount of $22 million. In February 2006, the court dismissed the two appeals of the final order. In April 2006, the court reinstated the appeal that challenged only the legal fees paid to plaintiffs counsel.

The Company s litigation is subject to many uncertainties, and given its complexity and scope, its outcome cannot be predicted. It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected 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. Management believes, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company s financial position.

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Financial Position

March 31, 2006 and December 31, 2005 (in millions)

	March 31, 2006			December 31, 2005		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities:						
Available for sale, at fair value	$ 104,744	$ 49,072	$ 153,816	$ 105,659	$ 49,494	$ 155,153
Held to maturity, at amortized cost	3,537		3,537	3,362		3,362
Trading account assets supporting insurance liabilities, at fair value	13,877		13,877	13,781		13,781
Other trading account assets, at fair value	2,358		2,358	1,443		1,443
Equity securities, available for sale, at fair value	2,149	3,341	5,490	2,043	2,968	5,011
Commercial loans	17,721	7,154	24,875	17,177	7,264	24,441
Policy loans	3,094	5,403	8,497	2,967	5,403	8,370
Securities purchased under agreements to resell	103		103	413		413
Other long-term investments	4,920	897	5,817	4,495	973	5,468
Short-term investments	2,404	1,431	3,835	2,565	1,394	3,959
Total investments	154,907	67,298	222,205	153,905	67,496	221,401
Cash and cash equivalents	5,915	2,683	8,598	5,493	2,306	7,799
Accrued investment income	1,400	750	2,150	1,358	709	2,067
Reinsurance recoverables	3,480		3,480	3,548		3,548
Deferred policy acquisition costs	8,776	1,082	9,858	8,357	1,081	9,438
Other assets	16,279	913	17,192	15,069	893	15,962
Separate account assets	170,134		170,134	157,561		157,561
TOTAL ASSETS	$ 360,891	$ 72,726	$ 433,617	$ 345,291	$ 72,485	$ 417,776
LIABILITIES AND ATTRIBUTED EQUITY						
LIABILITIES						
Future policy benefits	$ 52,909	$ 50,158	$ 103,067	$ 51,998	$ 50,113	$ 102,111
Policyholders account balances	70,411	5,562	75,973	69,852	5,568	75,420
Policyholders dividends	587	2,952	3,539	696	3,717	4,413
Reinsurance payables	2,994		2,994	3,069		3,069
Securities sold under agreements to repurchase	7,141	5,658	12,799	6,801	5,716	12,517
Cash collateral for loaned securities	3,139	2,610	5,749	3,425	2,393	5,818
Income taxes payable	2,500	97	2,597	2,136	78	2,214
Securities sold but not yet purchased	132		132	223		223
Short-term debt	9,685	1,671	11,356	9,447	1,667	11,114
Long-term debt	7,284	1,750	9,034	6,520	1,750	8,270
Other liabilities	12,746	1,163	13,909	11,909	374	12,283
Separate account liabilities	170,134		170,134	157,561		157,561

Total liabilities	339,662	71,621	411,283	323,637	71,376	395,013
COMMITMENTS AND CONTINGENT LIABILITIES						
ATTRIBUTED EQUITY						
Accumulated other comprehensive income	512	83	595	1,108	126	1,234
Other attributed equity	20,717	1,022	21,739	20,546	983	21,529
Total attributed equity	21,229	1,105	22,334	21,654	1,109	22,763
TOTAL LIABILITIES AND ATTRIBUTED EQUITY	$ 360,891	$ 72,726	$ 433,617	$ 345,291	$ 72,485	$ 417,776

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

For the three months ended March 31, 2006 and 2005 (in millions)

	Three Months Ended March 31,					
	2006			2005		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 2,612	$ 846	$ 3,458	$ 2,505	$ 845	$ 3,350
Policy charges and fee income	664		664	614		614
Net investment income	1,807	932	2,739	1,633	918	2,551
Realized investment gains (losses), net	116	60	176	270	203	473
Asset management fees and other income	877	13	890	710	15	725
Total revenues	6,076	1,851	7,927	5,732	1,981	7,713
BENEFITS AND EXPENSES						
Policyholders benefits	2,554	932	3,486	2,496	942	3,438
Interest credited to policyholders account balances	587	36	623	517	36	553
Dividends to policyholders	21	603	624	37	571	608
General and administrative expenses	1,957	196	2,153	1,609	187	1,796
Total benefits and expenses	5,119	1,767	6,886	4,659	1,736	6,395
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	957	84	1,041	1,073	245	1,318
Income tax expense	279	26	305	306	82	388
INCOME FROM CONTINUING OPERATIONS	678	58	736	767	163	930
Loss from discontinued operations, net of taxes	(3)		(3)	(1)		(1)
NET INCOME	$ 675	$ 58	$ 733	$ 766	$ 163	$ 929

See Notes to Unaudited Interim Supplemental Combining Financial Information

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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 4 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 Insurance, Investment, 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.

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information (Continued)

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 March 31, 2006, compared with December 31, 2005, and its consolidated results of operations for the three months ended March 31, 2006 and March 31, 2005. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the Risk Factors section and the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, as well as the statements under Forward-Looking Statements and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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 Insurance division consists of our Individual Life and Annuities and Group Insurance segments. The Investment division consists of our Asset Management, Financial Advisory, and Retirement 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 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. The net investment income of each segment includes earnings on the amount of equity 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 4 to the Unaudited Interim 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

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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.

Executive Summary

Prudential Financial, one of the largest financial services firms in the U.S., offers clients a wide array of financial products and services, including life insurance, mutual funds, annuities, pension and retirement-related services and administration, asset management, banking and trust services, real estate brokerage and relocation services, and, through a joint venture, retail securities brokerage services. We offer these products and services through one of the largest distribution networks in the financial services industry.

Significant developments and events in the first three months of 2006 reflect our continued efforts to redeploy capital effectively to seek enhanced returns. These developments included:

- The continuation of our share repurchase program. In the first three months of 2006, we repurchased 8.2 million shares of Common Stock at a total cost of $623 million and are authorized, under a stock repurchase program authorized by Prudential Financial s Board of Directors in November 2005, to repurchase up to an additional $1.9 billion of Common Stock during 2006.

- On March 8, 2006, we signed an agreement to acquire Allstate Financial s variable annuity business through coinsurance and modified coinsurance reinsurance arrangements. Our initial investment in the business will be approximately $560 million consisting of cash consideration in the form of a reinsurance ceding commission of approximately $580 million and additional capital requirements offset by related tax benefits. The transaction is subject to various closing conditions, including state insurance and other regulatory approvals, and is expected to close in the second quarter of 2006.

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.

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Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the three months ended March 31, 2006 and 2005 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes.

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Adjusted operating income before income taxes for segments of the Financial Services Businesses:		
Individual Life and Annuities	$ 251	$ 217
Group Insurance	47	38
Asset Management	169	134
Financial Advisory	(66)	15
Retirement	137	155
International Insurance	338	285
International Investments	44	25
Corporate and Other	26	17
Items excluded from adjusted operating income:		
Realized investment gains (losses), net, and related adjustments	51	257
Charges related to realized investment gains (losses), net		(21)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(114)	(132)
Change in experience-rated contractholder liabilities due to asset value changes	66	88
Divested businesses	8	(5)
Income from continuing operations before income taxes for Financial Services Businesses	957	1,073
Income from continuing operations before income taxes for Closed Block Business	84	245
Consolidated income from continuing operations before income taxes	$ 1,041	$ 1,318

Results for the three months ended March 31, 2006 presented above reflect the following:

- Improved results from our international insurance operations, including pre-tax adjusted operating income of $110 million from our Gibraltar Life operations reflecting improved investment margins, and pre-tax adjusted operating income of $228 million from our international insurance operations other than Gibraltar Life, reflecting business growth and improved investment margins. The improved investment margins in both operations was the result of certain portfolio strategies initially implemented in 2005, including increased investments in unhedged U.S. dollar denominated securities. Both operations also benefited, in comparison to a year ago, from foreign currency exchange rates.

- Improved results from our Individual Life and Annuities segment. Individual life results benefited primarily from more favorable mortality experience and higher fees. Individual annuity results benefited from higher fee income reflecting higher average asset balances from market appreciation and net flows in our variable annuity account values.

- Results from our Retirement segment decreased $18 million, reflecting benefits to year-ago quarter results from reserve releases from updates of client census data on a group annuity block of business, as well as the collection of investment income on a previously defaulted bond. Higher fee income and lower business transition costs in the current quarter were essentially offset by higher expenses reflecting the expansion of our Full Service distribution and client servicing capabilities.

Improved results from our Asset Management segment, reflecting higher asset based fees as a result of increased asset values and higher performance based incentive fees primarily related to real estate investment management.

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Our Group Insurance segment benefited from more favorable claims experience in our group disability business.

Improved results from our International Investments segment, which included current quarter income of $15 million representing market value changes on securities held relating to trading exchange memberships as well as higher earnings from joint ventures.

Financial Advisory segment loss, on a pre-tax adjusted operating income basis, of $66 million in the first quarter of 2006 in comparison to income of $15 million in the first quarter of 2005. Results for the first quarter of 2006 include expenses of $176 million related to obligations and costs we retained in connection with the businesses contributed to the retail brokerage joint venture with Wachovia, primarily for litigation and regulatory matters, compared to $27 million in the first quarter of 2005.

Realized investment gains (losses), net, and related adjustments for the Financial Services Businesses in the first quarter of 2006 amounted to $51 million, reflecting net gains on sales of equity securities, primarily by our Japanese insurance operations, and fluctuations in value of hedging instruments covering our investments.

Income from continuing operations before income taxes in the Closed Block Business decreased $161 million, principally due to a decrease in net realized investment gains of $143 million.

Accounting Policies & Pronouncements

Accounting Pronouncements Adopted

See Note 2 to the Unaudited Interim Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements, including the standard on accounting for share-based payments, FASB Statement No. 123(R) (revised 2004), Share-Based Payment, which was implemented effective January 1, 2006.

Recent Accounting Pronouncements

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

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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 March 31, 2006	Three Months Ended March 31, 2005
	(in millions)	
Financial Services Businesses by segment:		
Individual Life and Annuities	$ 230	$ 239
Group Insurance	54	64
Total Insurance Division	284	303
Asset Management	169	134
Financial Advisory	(66)	15
Retirement	84	178
Total Investment Division	187	327
International Insurance	364	302
International Investments	45	24
Total International Insurance and Investments Division	409	326
Corporate and Other	77	117
Income from continuing operations before income taxes for Financial Services Businesses	957	1,073
Income from continuing operations before income taxes for Closed Block Business	84	245
Income from continuing operations before income taxes	1,041	1,318
Income tax expense	305	388
Income from continuing operations	736	930
Loss from discontinued operations, net of taxes	(3)	(1)
Net income	$ 733	$ 929

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 GAAP. Adjusted operating income does not equate to income from continuing operations before income taxes or net income as determined in accordance with 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 from continuing operations before income taxes to exclude 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; and

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 GAAP.

The excluded items are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with GAAP, and our definition of

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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, 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, as discussed further below. A significant element of realized investment losses is impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles and can vary considerably across periods. The timing of other sales that would result in gains or losses is largely subject to our discretion and influenced by market opportunities. 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 will 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 9 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results.

Within our Asset Management segment, the commercial mortgage operations originate loans for sale, including through securitization transactions. The realized investment gains and losses associated with these loans, including related derivative results and retained mortgage servicing rights, are a principal source of earnings for this business and are included in adjusted operating income. Also within our Asset Management segment, the proprietary investing business makes investments for sale or syndication to other investors or for placement or co-investment in our managed funds and structured products. Realized investment gains and losses associated with the sale of these proprietary investments, along with derivatives used to hedge certain foreign currency-denominated proprietary investments, are a principal source of earnings for this business and are included in adjusted operating income.

We also 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 our realized investment gains and losses on derivatives used to manage interest rate and currency exposure on asset and liability mismatches that represents current period yield adjustments for these assets and liabilities. Adjusted operating income also includes for certain embedded derivatives, as current period yield adjustments, a portion of the cumulative realized investment gains, on an amortized basis over the remaining life of the related security, or cumulative realized investment losses in the period incurred. 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.

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Results of Operations for Financial Services Businesses by Segment

Insurance Division

Individual Life and Annuities

Operating Results

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

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Operating results:		
Revenues:		
Individual Life	$ 559	$ 532
Individual Annuities	453	424
	1,012	956
Benefits and expenses:		
Individual Life	426	415
Individual Annuities	335	324
	761	739
Adjusted operating income:		
Individual Life	133	117
Individual Annuities	118	100
	251	217
Realized investment gains (losses), net, and related adjustments(1)	(22)	25
Related charges(1)(2)	1	(3)
Income from continuing operations before income taxes	$ 230	$ 239

(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. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

(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 and value of business acquired. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

On March 8, 2006, we signed an agreement to acquire Allstate Financial s variable annuity business through coinsurance and modified coinsurance reinsurance arrangements. Our initial investment in the business will be approximately $560 million consisting of cash consideration in the form of a reinsurance ceding commission of approximately $580 million and additional capital requirements offset by related tax benefits. The transaction is subject to various closing conditions, including state insurance and other regulatory approvals, and is expected to close in the second quarter of 2006.

Adjusted Operating Income

2006 to 2005 Three Month Comparison. The segment s individual life business adjusted operating income increased $16 million, from $117 million in the first quarter of 2005 to $133 million in the first quarter of 2006. Results for the first quarter of 2006 benefited from more favorable claims experience, net of reinsurance, compared to the prior year period and higher fees resulting from higher asset balances reflecting market value

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changes. Net investment income was essentially unchanged from the first quarter of 2005 to the first quarter of 2006 as the benefit from the collection of $10 million investment income on a previously defaulted bond in the first quarter of 2005 was largely offset by a higher contribution from investment income, net of interest credited and interest expense, reflecting higher asset balances and improved yields, particularly on shorter-duration investments, in the first quarter of 2006.

Adjusted operating income of the segment s individual annuity business increased $18 million, from $100 million in the first quarter of 2005 to $118 million in the first quarter of 2006. Results for the first quarter of 2006 benefited from higher fee income reflecting higher average asset balances from market appreciation and net flows in our variable annuity account values. Partially offsetting this benefit to adjusted operating income was an increase in amortization of acquisition costs and deferred sales inducements reflecting increased gross profits in the current period. In addition, adjusted operating income in the first quarter of 2005 included $6 million, net of related amortization of deferred policy acquisition costs, from the collection of investment income on a previously defaulted bond.

Revenues

2006 to 2005 Three Month Comparison. Revenues of the segment s individual life insurance business, as shown in the table above under Operating Results, increased $27 million, from $532 million in the first quarter of 2005 to $559 million in the first quarter of 2006. Asset management fees and other income increased $12 million, primarily reflecting increased revenues for the distribution of non-proprietary insurance products by our agents, which was partially offset by an increase in operating expenses, including agent commissions. Premiums increased $8 million, primarily due to increased renewal premiums on term life insurance reflecting continued growth of our in force block of term insurance products. Policy charges and fee income increased $5 million, primarily reflecting the continuing growth in our universal life book of business. Excluding the $10 million collection of investment income on a previously defaulted bond in the first quarter of 2005, net investment income increased $12 million, reflecting higher asset balances compared to the first quarter of 2005.

Revenues from the segment s individual annuity business increased $29 million, from $424 million in the first quarter of 2005 to $453 million in the first quarter of 2006. Policy charges and fees increased $31 million, reflecting an increase in the average market value of variable annuity customer accounts and positive net flows of our variable annuities, including an increase in account values with living benefit options. Asset management fees and other income increased $20 million, primarily due to an increase in asset based fees. Partially offsetting these items was a decrease in premiums of $10 million, reflecting a lower level of deferred annuity contracts transitioning into the payout phase, which decline was offset by a corresponding decrease in change in reserves. In addition, revenues in the first quarter of 2005 included a $9 million collection of investment income on a previously defaulted bond.

Benefits and Expenses

2006 to 2005 Three Month Comparison. Benefits and expenses of the segment s individual life insurance business, as shown in the table above under Operating Results, increased $11 million, from $415 million in the first quarter of 2005 to $426 million in the first quarter of 2006. Policyholder benefits, including interest credited to policyholders account balances, increased $4 million, reflecting growth in our in force block of term insurance and universal life products partially offset by more favorable claims experience. General and administrative expenses increased $3 million, primarily reflecting higher commissions paid to our agents for the distribution of non-proprietary insurance products, as discussed above.

Benefits and expenses of the segment s individual annuity business increased $11 million, from $324 million in the first quarter of 2005 to $335 million in the first quarter of 2006. General and administrative expenses, net of capitalization, increased $17 million, which includes a $3 million increase in the amortization of value of business acquired reflecting increased gross profits in the current period. The remainder of the increase in general and administrative expenses is due to increased distribution costs charged to expense associated with increased variable annuity sales and increased asset management costs associated with the growth in account

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values. Amortization of deferred policy acquisition costs increased $3 million, reflecting increased gross profits in the current period. Partially offsetting these items was a decrease of $14 million in policyholders benefits, including interest credited to policyholders account balances, mainly due to a lower increase in reserves consistent with the decrease in premiums discussed above relating to contracts entering the payout phase.

Sales Results and Account Values

The following table sets forth individual life insurance business sales, as measured by scheduled premiums from new sales on an annualized basis and first year excess premiums and deposits on a cash-received basis, and changes in account values for the individual annuity business, for the periods indicated. Sales of the individual life insurance business do not correspond to revenues under GAAP. They are, however, a relevant measure of business activity. In managing our individual life insurance business, we analyze new sales on this basis because it measures 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 as well as current sales. 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 March 31,	
	2006	**2005**
	(in millions)	
Life insurance sales(1):		
Excluding corporate-owned life insurance:		
Variable life	$ 21	$ 19
Universal life	40	51
Term life	31	29
Total excluding corporate-owned life insurance	92	99
Corporate-owned life insurance	1	1
Total	$ 93	$ 100
Life Insurance sales by distribution channel, excluding corporate-owned life insurance(1):		
Prudential Agents	$ 45	$ 60
Third party	47	39
Total	$ 92	$ 99
Variable Annuities(2):		
Beginning total account value	$ 50,778	$ 47,418
Sales	2,129	1,433
Surrenders and withdrawals	(1,585)	(1,388)
Net sales	544	45
Benefit payments	(198)	(145)
Net flows	346	(100)
Change in market value, interest credited and other activity	2,241	(774)
Policy charges	(184)	(158)

Ending total account value	$ 53,181	$ 46,386
Fixed Annuities:		
Beginning total account value	$ 3,991	$ 3,879
Sales	28	52
Surrenders and withdrawals	(69)	(56)
Net redemptions	(41)	(4)
Benefit payments	(43)	(41)
Net flows	(84)	(45)
Interest credited and other activity	35	46
Policy charges	(1)	(1)
Ending total account value	$ 3,941	$ 3,879

(1) Scheduled premiums from new sales on an annualized basis and first year excess premiums and deposits on a cash-received basis.
(2) Variable annuities include only those sold as retail investment products. Investments through defined contribution plan products are included with such products.

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2006 to 2005 Three Month Comparison. Sales of new life insurance, excluding corporate-owned life insurance, measured as described above, decreased $7 million, from $99 million in the first quarter of 2005 to $92 million in the first quarter of 2006. Sales of our universal life products decreased $11 million. This decrease was partially offset by increased sales of our variable and term life products.

The decrease in sales of life insurance, excluding corporate-owned life insurance, was driven by decreased sales of $15 million by Prudential Agents, reflecting a decline in the number of agents from 3,519 at March 31, 2005 to 2,850 at March 31, 2006. The decline was partially offset by increased sales of $8 million from the third party distribution channel across all product lines.

Total account values for fixed and variable annuities amounted to $57.1 billion as of March 31, 2006, an increase of $2.3 billion from December 31, 2005. The increase came primarily from increases in the market value of customers variable annuities. Total account values as of March 31, 2006 increased $6.9 billion from March 31, 2005, primarily from increases in the market value of customers variable annuities combined with increased variable annuity sales which from March 31, 2005 to March 31, 2006 exceeded variable annuity surrenders, withdrawals and benefits by approximately $1.3 billion in the aggregate. Individual variable annuity gross sales increased by $696 million, from $1.4 billion in the first quarter of 2005 to $2.1 billion in the first quarter of 2006, reflecting our new living benefit product features introduced late in the first quarter of 2005.

Policy Surrender Experience

The following table sets forth the individual life insurance business s 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 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. Our term life insurance products do not provide for cash surrender values.

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	
Cash value of surrenders	$ 191	$ 155
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	3.7%	3.2%

2006 to 2005 Three Month Comparison. The total cash value of surrenders increased $36 million, from $155 million in the first quarter of 2005 to $191 million in the first quarter of 2006, resulting in an increase in the level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances. Approximately half of this increase is associated with the surrender in the current quarter of a single large corporate-owned life insurance case.

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Group Insurance

Operating Results

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

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Operating results:		
Revenues	$ 1,109	$ 1,052
Benefits and expenses	1,062	1,014
Adjusted operating income	47	38
Realized investment gains (losses), net, and related adjustments(1)	8	26
Related charges(2)	(1)	
Income from continuing operations before income taxes	$ 54	$ 64

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

(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. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

Adjusted Operating Income

2006 to 2005 Three Month Comparison. Adjusted operating income increased $9 million, from $38 million in the first quarter of 2005 to $47 million in the first quarter of 2006. This increase reflects more favorable claims experience in our group disability business, partially offset by less favorable mortality experience in our group life insurance business, as well as higher commission expenses and premium taxes in the current quarter.

Revenues

2006 to 2005 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased by $57 million, from $1.052 billion in the first quarter of 2005 to $1.109 billion in the first quarter of 2006. Group life insurance premiums increased by $38 million from $644 million in the first quarter of 2005 to $682 million in the first quarter of 2006, primarily reflecting growth in business in force resulting from new sales and continued strong persistency, which remained unchanged at 97% for both periods. Group disability premiums, which include long-term care products, increased by $11 million from $174 million in the first quarter of 2005 to $185 million in the first quarter of 2006, primarily reflecting growth in business in force resulting from new sales and continued strong persistency, which improved from 92% in the first quarter of 2005 to 94% in the first quarter of 2006.

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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 March 31,	
	2006	**2005**
Benefits ratio(1):		
Group life	92.1%	90.1%
Group disability	87.3	102.8
Administrative operating expense ratio(2):		
Group life	9.4	8.9
Group disability	21.6	22.3

(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.

2006 to 2005 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $48 million, from $1.014 billion in the first quarter of 2005 to $1.062 billion in the first quarter of 2006. The increase was primarily driven by an increase of $33 million in policyholders benefits, including the change in policy reserves, reflecting the growth of business in force and less favorable claims experience in our group life insurance business, partially offset by more favorable claims experience in our group disability business. Also contributing to the increase in benefits and expenses was an increase in operating expenses attributable to greater commission expenses, as a result of growth in the business, and higher premium taxes due to the benefit of a premium tax credit in the prior year quarter.

The group life benefits ratio deteriorated 2.0 percentage points from the first quarter of 2005 to the first quarter of 2006, reflecting less favorable mortality experience in our group life insurance business. The group disability benefits ratio improved by 15.5 percentage points from the first quarter of 2005 to the first quarter of 2006, due to more favorable claims experience in our group disability business, primarily resulting from an increase in net claim resolutions on our long-term disability products. The group life administrative operating expense ratio deteriorated from the first quarter of 2005 to the first quarter of 2006, reflecting the benefit of a premium tax credit in the prior year quarter. The group disability administrative operating expense ratio improved from the first quarter of 2005 to the first quarter of 2006, reflecting stable expenses with an increasing level of premiums.

Sales Results

The following table sets forth the Group Insurance segment s new annualized premiums for the periods indicated. In managing our group insurance business, we analyze new annualized premiums, which do not correspond to revenues under GAAP, because new annualized 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 March 31,	
	2006	2005
	(in millions)	
New annualized premiums(1):		
Group life	$ 206	$ 274
Group disability(2)	74	76
Total	$ 280	$ 350

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(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.

2006 to 2005 Three Month Comparison. Total new annualized premiums decreased $70 million, or 20%, from $350 million in the first quarter of 2005 to $280 million in the first quarter of 2006. This decrease is primarily attributable to a significant large case sale in the group life business in the first quarter of 2005.

Investment Division

Asset Management

Operating Results

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

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(in millions)	
Operating results:		
Revenues	$ 502	$ 418
Expenses	333	284
Adjusted operating income	169	134
Realized investment gains (losses), net(1)		
Income from continuing operations before income taxes	$ 169	$ 134

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

Adjusted Operating Income

2006 to 2005 Three Month Comparison. Adjusted operating income increased $35 million, from $134 million in the first quarter of 2005 to $169 million in the first quarter of 2006. Results for the first quarter of 2006 benefited from increased fees primarily from the management of institutional customer assets as a result of increased asset values due to market appreciation and net asset flows, and from greater performance based incentive fees primarily related to our real estate investment management. Increased performance-related compensation costs partially offset the foregoing growth in revenues. In addition, proprietary investing income benefited from appreciation and gains on sale of real estate investments which essentially offset the $35 million benefit to year-ago quarter results from a single sale in that business.

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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 source and assets under management for the periods indicated. In managing our business we analyze assets under management, which do not correspond to GAAP assets, because our primary sources of revenues are fees based on assets under management.

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	
Revenues by source:		
Investment Management and Advisory Services:		
Retail customers(1)	$ 65	$ 58
Institutional customers	194	134
General account	68	65
Sub-total	327	257
Mutual fund, managed account and other revenues(2)	175	161
Total revenues	$ 502	$ 418

(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) Represents mutual fund, managed account and other revenues other than asset management fees, which are included in the appropriate categories above. Includes revenues under a contractual arrangement with Wachovia Securities, related to managed account services, which was originally scheduled to expire July 1, 2006. This contract was amended effective July 1, 2005 to provide essentially a fixed fee for managed account services and is now scheduled to expire July 1, 2008.

	March 31, 2006	March 31, 2005
	(in billions)	
Assets Under Management (at fair market value):		
Retail customers(1)	$ 75.6	$ 64.8
Institutional customers(2)	138.7	119.0
General account	157.8	155.3
Total Investment Management and Advisory Services	$ 372.1	$ 339.1

(1) Consists of individual mutual funds, including investments in our mutual funds through wrap-fee products, 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.

(2) Consists of third party institutional assets and group insurance contracts.

2006 to 2005 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $84 million, from $418 million in the first quarter of 2005 to $502 million in the first quarter of 2006. This increase was primarily the result of a $60 million increase in revenues from the management of institutional customer assets as a result of increased asset values due to market appreciation and net asset flows, and greater performance based incentive fees which mainly related to our real estate investment management.

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Expenses

2006 to 2005 Three Month Comparison. Expenses, as shown in the table above under Operating Results, increased $49 million, from $284 million in the first quarter of 2005 to $333 million in the first quarter of 2006. The increase in expenses is primarily due to higher performance-related compensation costs resulting from favorable performance in the first quarter of 2006.

Financial Advisory

Operating Results

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

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Operating results:		
Revenues	$ 178	$ 112
Expenses	244	97
Adjusted operating income(1)	$ (66)	$ 15

(1) Results of this segment are the same on both an adjusted operating income basis and a GAAP basis.

On July 1, 2003, we combined our retail securities brokerage and clearing operations with those of Wachovia Corporation, or Wachovia, and formed Wachovia Securities Financial Holdings, LLC, or Wachovia Securities, a joint venture headquartered in Richmond, Virginia. We have a 38% ownership interest in the joint venture, while Wachovia owns the remaining 62%. The transaction included our securities brokerage operations but did not include our equity sales, trading and research operations. As part of the transaction we retained certain assets and liabilities related to the contributed businesses, including liabilities for certain litigation and regulatory matters. We account for our 38% ownership of the joint venture under the equity method of accounting.

2006 to 2005 Three Month Comparison. Adjusted operating income decreased $81 million, from income of $15 million in the first quarter of 2005 to a loss of $66 million in the first quarter of 2006. The segment s results for the first quarter of 2006 include our share of earnings from Wachovia Securities, on a pre-tax basis and excluding transition costs, of $69 million, compared to $50 million in the first quarter of 2005. The segment s results also include expenses of $176 million in the first quarter of 2006 related to obligations and costs we retained in connection with the contributed businesses primarily for litigation and regulatory matters, compared to $27 million in the first quarter of 2005. The current year expenses reflect an increase in our reserve for estimated settlement costs related to market timing issues under active negotiation with state and federal authorities. There are no transition costs in the first quarter of 2006 as the business integration was completed during the first half of

2005. Transition costs were $11 million in the first quarter of 2005. In addition, results of the segment include adjusted operating income from our equity sales and trading operations of $41 million in the first quarter of 2006, an increase of $38 million from $3 million in the first quarter of 2005. The first quarter 2006 results include income of $42 million from securities relating to trading exchange memberships, primarily representing shares received in connection with the commencement of public trading of exchange shares, which shares were transferred to our corporate operations during the first quarter of 2006. Changes in market value of the shares will be reflected within corporate operations.

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Retirement

Operating Results

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

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Operating results:		
Revenues	$ 1,054	$ 943
Benefits and expenses	917	788
Adjusted operating income	137	155
Realized investment gains (losses), net, and related adjustments(1)	(5)	70
Related charges(2)		(3)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	(145)	(155)
Change in experience-rated contractholder liabilities due to asset value changes(4)	97	111
Income from continuing operations before income taxes	$ 84	$ 178

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.
(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. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.
(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. For a discussion of these items see Trading account assets supporting insurance liabilities.
(4) Benefits and expenses exclude changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. For a discussion of these items see Trading account assets supporting insurance liabilities.

Adjusted Operating Income

2006 to 2005 Three Month Comparison. Adjusted operating income for the Retirement segment decreased $18 million, from $155 million in the first quarter of 2005 to $137 million in the first quarter of 2006. The decrease reflected benefits to year-ago quarter results from reserve releases reflecting updates of client census data on a group annuity block of business amounting to $10 million, and $7 million from the collection of investment income on a previously defaulted bond. Excluding the effect of these items, adjusted operating income for the Retirement segment was essentially unchanged from the year-ago quarter. Higher general and administrative expenses relating to the expansion of our Full Service distribution and client servicing capabilities offset increased asset management fees due to higher account balances resulting from market appreciation and lower transition related expenses, as the integration of the retirement business acquired from CIGNA in 2004 was completed during the first quarter of 2006 as originally anticipated. These transition costs amounted to $6 million and $9 million in the first quarter of 2006 and 2005, respectively.

Revenues

2006 to 2005 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $111 million, from $943 million in the first quarter of 2005 to $1.054 billion in the first quarter of 2006. Premiums increased $51 million primarily due to a single large sale of a group annuity product. Net investment income increased $60 million primarily reflecting a larger base of invested assets due to sales of

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guaranteed investment products in the institutional and retail markets and investments financed by borrowings. The effect of the larger asset base was partially offset by the collection in the first quarter of 2005 of investment income of $7 million on a previously defaulted bond. In addition, net investment income in both periods reflect the benefit of mortgage prepayment income, which was $8 million in the first quarter of 2006 and $11 million in the first quarter of 2005.

Benefits and Expenses

2006 to 2005 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $129 million, from $788 million in the first quarter of 2005 to $917 million in the first quarter of 2006. Policyholders benefits, including the change in policy reserves, increased by $54 million reflecting an increase in reserves commensurate with the increase in premiums discussed above and, to a lesser extent, lower reserve releases in the current quarter. Interest credited to policyholders account balances increased $45 million reflecting higher interest credited on the greater base of guaranteed investment products sold in the institutional and retail markets. Interest expense increased $21 million primarily due to increased financing costs on increased borrowings, the proceeds of which were used to purchase invested assets. In addition, general and administrative expenses increased $12 million, primarily as a result of the expansion of our Full Service distribution and client servicing capabilities.

Sales Results and Account Values

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

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	
Full Service(1):		
Beginning total account value	$ 88,385	$ 83,891
Sales	5,381	3,784
Withdrawals and benefits	(5,471)	(3,349)
Change in market value, interest credited and interest income	3,559	(399)
Ending total account value	$ 91,854	$ 83,927
Net sales (withdrawals)	$ (90)	$ 435
Institutional Investment Products(2):		
Beginning total account value	$ 48,080	$ 47,680
Sales	1,536	1,243
Withdrawals and benefits	(2,452)	(1,181)
Change in market value, interest credited and interest income	182	318
Other(3)	(131)	(362)

Ending total account value	$ 47,215	$ 47,698
Net sales (withdrawals)	$ (916)	$ 62

(1) Ending total account value for the Full Service business includes assets of Prudential s retirement plan of $5.4 billion and $4.9 billion as of March 31, 2006 and 2005, respectively.

(2) Ending total account value for the Institutional Investment Products business includes assets of Prudential s retirement plan of $5.3 billion and $6.9 billion as of March 31, 2006 and 2005, respectively.

(3) Represents changes in asset balances for externally managed accounts.

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2006 to 2005 Three Month Comparison. Account values in our Full Service business amounted to $91.9 billion as of March 31, 2006, an increase of $3.5 billion from December 31, 2005. The increase in account values was driven by an increase in the market value of mutual funds and separate accounts and interest on general account business. Net sales (withdrawals) decreased $525 million from net sales of $435 million in the first quarter of 2005 to net withdrawals of $90 million in the first quarter of 2006. First quarter 2006 sales include a $1.6 billion sale to a single client. Withdrawals during the current quarter included three large plan terminations totaling $2.1 billion, each relating to clients of the original Prudential business prior to the acquisition of CIGNA s retirement business and primarily associated with merger and plan consolidation activity.

Account values in our Institutional Investment Products business amounted to $47.2 billion as of March 31, 2006, a decrease of $865 million from December 31, 2005. The decrease in account values was driven by $916 million in net withdrawals. Net sales (withdrawals) decreased $978 million from net sales of $62 million in the first quarter of 2005 to net withdrawals of $916 million in the first quarter of 2006, as the first quarter of 2006 reflects approximately $1.4 billion of transfers from the Institutional Investment Products business to our Asset Management segment. Partially offsetting the increase in withdrawals were higher sales in the first quarter of 2006 of guaranteed investment products in the institutional and retail markets, structured settlements and group annuity products.

International Insurance and Investments Division

The operations of our International Insurance and International Investments segments are subject to currency fluctuations that can materially affect their U.S. dollar results from period to period even if results on a local currency basis are relatively constant. The financial results of our International Insurance and International Investments segments for all periods presented reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments results of operations in all countries 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 exchange rate changes will reduce the segments U.S. dollar equivalent earnings. The intercompany arrangement with Corporate and Other operations increased revenues and adjusted operating income of the International Insurance segment by $12 million for the three months ended March 31, 2006, and decreased revenues and adjusted operating income by $19 million for the three months ended March 31, 2005, and decreased revenues and adjusted operating income of the International Investments segment by $2 million for both the three months ended March 31, 2006 and 2005. Pursuant to this program, Corporate and Other operations executes forward sale contracts with third parties in 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 non-U.S. dollar 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. 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 sales contracts.

To provide a better understanding of operating performance within the International Insurance segment we have analyzed local results, where indicated below, both on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above, and on the basis of constant exchange rates. When we discuss constant exchange rate information, it is on the basis of the average exchange rates for the year ended December 31, 2005.

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International Insurance

Operating Results

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

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Operating Results:		
Revenues:		
International Insurance, excluding Gibraltar Life	$ 1,217	$ 1,159
Gibraltar Life	738	741
	1,955	1,900
Benefits and expenses:		
International Insurance, excluding Gibraltar Life	989	980
Gibraltar Life	628	635
	1,617	1,615
Adjusted operating income:		
International Insurance, excluding Gibraltar Life	228	179
Gibraltar Life	110	106
	338	285
Realized investment gains (losses), net, and related adjustments(1)	26	33
Related charges(2)		(16)
Investment gains on trading account assets supporting insurance liabilities, net(3)	31	23
Change in experience-rated contractholder liabilities due to asset value changes(4)	(31)	(23)
Income from continuing operations before income taxes	$ 364	$ 302

(1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. The related charges represent the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

(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. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. For a discussion of these items see Trading Account Assets Supporting Insurance Liabilities.

(4) Benefits and expenses exclude changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. For a discussion of these items see Trading Account Assets Supporting Insurance Liabilities.

On November 1, 2004, we acquired Aoba Life for a total purchase price of $191 million. Results of Aoba Life for the quarter ended March 31, 2005, reflect operations from the date of acquisition and are included as a component of our international insurance operations other than Gibraltar Life. In the first quarter of 2005, Aoba Life was integrated with and merged into our existing Japanese insurance operation, Prudential of Japan.

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Adjusted Operating Income

2006 to 2005 Three Month Comparison. Adjusted operating income from our international insurance operations, other than Gibraltar Life, increased $49 million, from $179 million in the first quarter of 2005 to $228 million in first quarter of 2006, including a $13 million favorable impact of currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income of our international insurance operations, other than Gibraltar Life, increased $36 million, reflecting continued growth of our Japanese and Korean Life Planner operations, improved investment margins, and a more favorable level of policyholders benefits and expenses. The improved investment margins are primarily the result of certain portfolio strategies initially implemented in 2005, including increased investments in unhedged U.S. dollar denominated securities.

Gibraltar Life s adjusted operating income increased $4 million, from $106 million in the first quarter of 2005 to $110 million in the first quarter of 2006, including a $5 million favorable impact of currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income of Gibraltar Life was essentially unchanged, as an increase in investment income margins was largely offset by a less favorable level of policyholders benefits and expenses. The improvement in investment income margins was primarily a result of certain portfolio strategies initially implemented in 2005, as discussed above.

Revenues

2006 to 2005 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $55 million, from $1.900 billion in the first quarter of 2005 to $1.955 billion in the first quarter of 2006, including a net unfavorable impact of $117 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $172 million, from $1.838 billion in the first quarter of 2005 to $2.010 billion in the first quarter of 2006. Revenues on this basis from our international insurance operations, other than Gibraltar Life, increased $106 million from the first quarter of 2005 to the first quarter of 2006. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $101 million, from $981 million in the first quarter of 2005 to $1.082 billion in the first quarter of 2006, and an increase in net investment income of $22 million, from $139 million in the first quarter of 2005, to $161 million in the first quarter of 2005, reflecting the favorable effect of certain investment portfolio strategies initially implemented in 2005 as discussed above. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $71 million, from $707 million in the first quarter of 2005 to $778 million in the first quarter of 2006. Premiums and policy charges and fee income from our Korean operation increased $28 million, from $215 million in the first quarter of 2005 to $243 million in the first quarter of 2006. The increase in premiums and policy charges and fee income in both operations was primarily the result of new sales and strong persistency.

Revenues for Gibraltar Life declined $3 million, from $741 million in the first quarter of 2005 to $738 million in the first quarter of 2006, including a $69 million unfavorable impact of currency fluctuations. Excluding the impact of the currency fluctuations, revenues increased $66 million, from $706 million in the first quarter of 2005 to $772 million in the first quarter of 2006. The increase in revenues reflects increased premiums from single pay contracts for which there is a corresponding increase in benefits and expenses and increased net investment income resulting from certain portfolio strategies initially implemented in 2005 as discussed above. The increase in premiums from single pay contracts reflects additional face amounts of insurance issued pursuant to a special dividend arrangement established as part of Gibraltar Life s reorganization, partially offset by a decline in sales of other single premium contracts.

Benefits and Expenses

2006 to 2005 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $2 million, from $1.615 billion in the first quarter of 2005 to $1.617 billion in the first quarter of 2006, including a favorable impact of $135 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $137 million, from $1.549 billion in the first quarter of 2005 to $1.686 billion in the first quarter of 2006. On the same basis, benefits and expenses of our Japanese Life Planner operation increased $38 million, from $667 million in the first quarter of 2005 to $705 million in the first quarter of 2006. Benefits and expenses from our Korean operation increased $28 million, from $196 million in the first quarter of 2005 to $224 million in first quarter of 2006. The increase in benefits and expenses in both operations reflects an increase in changes in reserves, resulting from the aging of business in force and a greater volume of business in force, which was driven by new sales and strong persistency.

Gibraltar Life s benefits and expenses declined $7 million, from $635 million in the first quarter of 2005 to $628 million in the first quarter of 2006, including a $74 million favorable impact of currency fluctuations. Excluding the impact of the currency fluctuations, benefits and expenses increased $67 million, from $602 million in the first quarter of 2005 to $669 million in the first quarter of 2006, reflecting the effects of the single pay contracts described above.

Sales Results

In managing our international insurance business, we analyze new annualized premiums, which do not correspond to revenues under GAAP, as well as revenues, because new annualized premiums measure the current sales performance of the segment, while revenues reflect the renewal persistency and aging of in force policies written in prior years and net investment income, in addition to current sales. New annualized premiums on an actual and constant exchange rate basis are as follows for the periods indicated.

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	
New annualized premiums:		
On an actual exchange rate basis:		
International Insurance, excluding Gibraltar Life	$ 216	$ 237
Gibraltar Life	73	71
Total	$ 289	$ 308
On a constant exchange rate basis:		
International Insurance, excluding Gibraltar Life	$ 219	$ 232
Gibraltar Life	76	68
Total	$ 295	$ 300

2006 to 2005 Three Month Comparison. On a constant exchange rate basis, new annualized premiums declined $5 million, from $300 million in the first quarter of 2005 to $295 million in the first quarter of 2006. On the same basis, new annualized premiums from our Japanese Life Planner operation declined $22 million, reflecting a decline in sales of U.S. dollar denominated retirement income products resulting from a reduction in guaranteed crediting rates in the second quarter of 2005. Sales in all other countries, also on a constant exchange rate basis, increased $9 million, primarily reflecting increases in sales in Korea of the variable annuity product, introduced in 2005, and the retirement income product, and increases in variable life product in Taiwan. New annualized premiums from our Gibraltar Life operation increased $8 million, on a constant exchange rate basis, from the first quarter of 2005 to the first quarter of 2006 primarily due to sales of the U.S. dollar denominated single premium fixed annuity, a product launched in April 2005, contributing approximately $19 million in the current quarter.

Sales other than single pay contracts declined $6 million, or 10%.

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. Japanese authorities regulate interest rates guaranteed in our

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Japanese 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 sold in Japan, other than at Gibraltar, 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 quarter of 2006 and the first quarter of 2005, 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 March 31,	
	2006	**2005**
	(in millions)	
Operating results:		
Revenues	$ 150	$ 128
Expenses	106	103
Adjusted operating income	44	25
Realized investment gains (losses), net(1)	1	(2)
Related charges(2)		1
Income from continuing operations before income taxes	$ 45	$ 24

(1) Revenues exclude Realized investment gains (losses), net. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on minority interest. For a discussion of these items see Realized Investment Gains and General Account Investments Realized Investment Gains.

Adjusted Operating Income

2006 to 2005 Three Month Comparison. Adjusted operating income increased $19 million, from $25 million in the first quarter of 2005 to $44 million in the first quarter of 2006. This increase was primarily a result of $15 million of income recognized in the current quarter representing market value changes on securities held relating to trading exchange memberships as well as higher earnings from joint ventures. Results for our Korean asset management operation, Prudential Investment & Securities Co., Ltd., or PISC, which we acquired in 2004, were essentially unchanged, as earnings were $20 million in the first quarter of 2006 compared to earnings of $19 million in the first quarter of 2005. PISC s earnings in both periods include $6 million of fee revenue from the Korean government under an agreement entered into in connection with the acquisition related to the provision of asset management and brokerage services, which agreement extends until February 27, 2009.

Revenues

2006 to 2005 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $22 million, from $128 million in the first quarter of 2005 to $150 million in the first quarter

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of 2006, primarily as a result of income recognized in the current quarter representing market value changes on securities held relating to trading exchange memberships and higher earnings from joint ventures as discussed above.

Expenses

2006 to 2005 Three Month Comparison. Expenses, as shown in the table above under Operating Results, increased $3 million, from $103 million in the first quarter of 2005 to $106 million in the first quarter of 2006, primarily due to higher general and administrative expenses.

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) corporate-level income and expenses, after allocations to any of our business segments, including income from our qualified pension plans and investment returns on capital that is not deployed in any of our segments; (2) returns from investments that we do not allocate to any of our business segments, including a debt-financed investment portfolio, as well as the impact of transactions with other segments; and (3) businesses that we have placed in wind-down status but have not divested.

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Operating Results:		
Corporate Operations(1)	$ 16	$ 6
Real Estate and Relocation Services	10	11
Adjusted operating income	26	17
Realized investment gains (losses), net, and related adjustments(2)	43	105
Divested businesses(3)	8	(5)
Income from continuing operations before income taxes	$ 77	$ 117

(1) Includes consolidating adjustments.
(2) See Realized Investment Gains and General Account Investments Realized Investment Gains for a discussion of these items.
(3) See Divested Businesses for a discussion of the results of our divested businesses.

2006 to 2005 Three Month Comparison. Adjusted operating income increased $9 million, from $17 million in the first quarter of 2005 to $26 million in the first quarter of 2006. Adjusted operating income from corporate operations increased $10 million, from $6 million in the first quarter of 2005 to $16 million in the first quarter of 2006. Corporate operations investment income, net of interest expense increased $17 million reflecting the investment of proceeds from the company s issuance of $2 billion principal amount of convertible debt securities in November 2005, as well as more favorable results from joint venture investments. General and administrative expenses, excluding income from our qualified pension plan, declined by $3 million. Corporate operations includes income from our qualified pension plan of $86 million in the first quarter of 2006, a decrease of $17 million from $103 million in the first quarter of 2005. The decline includes the impact of a reduction in the expected return on plan assets from 8.5% for 2005 to 8.0% for 2006. First quarter 2006 adjusted operating income from corporate operations also included income of $7 million reflecting market appreciation on shares received by our Financial Advisory segment in connection with the commencement of public trading of exchange shares, which shares were transferred to corporate operations during the first quarter of 2006.

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Adjusted operating income of our real estate and relocation services business decreased $1 million, from $11 million in the first quarter of 2005 to $10 million in the first quarter of 2006.

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 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 policyholder dividend obligations 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 March 31, 2006, the Company has recognized a policyholder dividend obligation to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings of $340 million. Actual cumulative earnings, as required by GAAP, reflect the recognition of realized investment gains in the current period. Additionally, net unrealized investment gains have arisen subsequent to the establishment of the Closed Block due to the impact of lower interest rates on the market value of fixed maturities available for sale. These net unrealized investment gains have been reflected as a policyholder dividend obligation of $1.461 billion, as of March 31, 2006, to be paid to Closed Block policyholders, unless otherwise offset by future experience, with an offsetting amount reported in accumulated other comprehensive income.

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 GAAP. The following table sets forth the Closed Block Business GAAP results for the periods indicated.

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	

GAAP results:		
Revenues	$ 1,851	$ 1,981
Benefits and expenses	1,767	1,736
Income from continuing operations before income taxes	$ 84	$ 245

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Income from Continuing Operations Before Income Taxes

2006 to 2005 Three Month Comparison. Income from continuing operations before income taxes decreased $161 million, from $245 million in the first quarter of 2005 to $84 million in the first quarter of 2006, principally due to a decrease in net realized investment gains of $143 million. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and General Account Investments Realized Investment Gains. Current quarter results also reflect an increase of $32 million in dividends to policyholders, which includes an increase to the cumulative earnings policyholder dividend obligation of $14 million, as well as higher dividends on a maturing book of business.

Revenues

2006 to 2005 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $130 million, from $1.981 billion in the first quarter of 2005 to $1.851 billion in the first quarter of 2006, principally driven by the $143 million decrease in net realized investment gains.

Benefits and Expenses

2006 to 2005 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $31 million, from $1.736 billion in the first quarter of 2005 to $1.767 billion in the first quarter of 2006, as dividends to policyholders increased $32 million reflecting an increase to the cumulative earnings policyholder dividend obligation of $14 million and higher dividends on a maturing book of business.

Income Taxes

Our income tax provision amounted to $305 million in the first three months of 2006 compared to $388 million in the first three months of 2005, representing 29% of income from continuing operations before income taxes in both the current and prior year quarters.

Discontinued Operations

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

	Three Months Ended March 31,

	2006	2005
	(in millions)	
Dryden Wealth Management	$ (2)	$ (9)
International securities operations	(2)	(4)
Healthcare operations		18
Income (loss) from discontinued operations before income taxes	(4)	5
Income tax expense (benefit)	(1)	6
Loss from discontinued operations, net of taxes	$ (3)	$ (1)

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Realized Investment Gains and General Account Investments

Realized Investment Gains

Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, real estate investments, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost 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 loans, fair value changes on commercial mortgage operations loans, gains on commercial loans in connection with securitization transactions, fair value changes on embedded derivatives and derivatives that do not qualify for hedge accounting treatment, except those derivatives used in our capacity as a broker or dealer.

We perform impairment reviews on an ongoing basis to determine when a decline in value is other than temporary. In evaluating whether a decline in value is other than temporary, we consider several factors including, but not limited to, the following: the extent (generally if greater than 20%) and duration (generally if greater than six months) of the decline in value; the reasons for the decline (credit event or interest rate related); our ability and intent to hold our investment for a period of time to allow for a recovery of value; and the financial condition of and near-term prospects of the issuer. When we determine that there is an other than temporary impairment, we write down the value of the security to its fair value, with a corresponding charge recorded in Realized investment gains (losses), net. The causes of the impairments discussed below were specific to each individual issuer and did not directly result in impairments to other securities within the same industry or geographic region.

For a further discussion of our policies regarding other than temporary declines in investment value and the related methodology for recording fixed maturity impairments, see General Account Investments Fixed Maturity Securities 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 Impairments of Equity Securities below.

The level of impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. We may realize additional credit-related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

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 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 also 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. 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 hedged assets or liabilities the same way. Accordingly, realized investment gains and losses from our hedging 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 business which primarily originate investments for sale or syndication to unrelated investors, and those associated with terminating hedges of foreign currency earnings, current period

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yield adjustments, or product derivatives and the effect of any related economic hedging program) and related charges and adjustments. For a further discussion of these related charges and adjustments see Note 9 to the Unaudited Interim Consolidated Financial Statements.

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 months ended March 31, 2006 and 2005, 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 of the segments of our Financial Services Businesses, see Note 9 to the Unaudited Interim Consolidated Financial Statements.

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Realized investment gains (losses), net:		
Financial Services Businesses	$ 116	$ 270
Closed Block Business	60	203
Consolidated realized investment gains (losses), net	$ 176	$ 473
Financial Services Businesses:		
Realized investment gains (losses), net		
Fixed maturity investments	$ (65)	$ 39
Equity securities	79	29
Derivative instruments	69	168
Other	33	34
Total	116	270
Related adjustments	(65)	(13)
Realized investment gains (losses), net, and related adjustments	$ 51	$ 257
Related charges	$	$ (21)
Closed Block Business:		
Realized investment gains (losses), net		
Fixed maturity investments	$ 8	$ 104
Equity securities	70	85
Derivative instruments	(61)	9
Other	43	5
Total	$ 60	$ 203

2006 to 2005 Three Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains in the first quarter of 2006 were $116 million, compared to net realized investment gains of $270 million in the first quarter of 2005. Net realized losses on fixed maturity securities were $65 million in the first quarter of 2006 and reflect net losses on sales and maturities of fixed maturity securities of $67 million, including gross losses of $121 million, which were primarily interest-rate related. Fixed maturity net realized losses also included fixed maturity impairments of $10 million and credit losses of $4 million in the first quarter of 2006, partially offset by private bond prepayment premiums of $16 million. Net realized gains on fixed maturity securities were $39 million in the first quarter of

2005 and reflect net losses on sales and maturities of fixed maturity securities of $10 million, including gross losses of $130 million, which were primarily interest-rate related. The first quarter of 2005 also included impairments and credit losses of $5 million and $16 million, respectively. Offsetting these losses in the first quarter of 2005 were private bond prepayment premiums of $37 million and a gain of $33 million relating to the recovery of impaired principal on a previously defaulted bond. Realized net gains on equity securities were $79 million in the first quarter of 2006, compared with realized net gains on equity securities in the first quarter of 2005 of $29 million, primarily due to sales in our Gibraltar Life operations and in our proprietary investing business. Realized gains in the first quarter of 2006 included net derivative gains of $69 million, compared to net derivative gains of $168 million in the first quarter of 2005. The derivative gains in the first quarter of 2006 were primarily the result of net gains of $35 million from treasury futures positions used to manage the duration of the fixed maturity investment portfolio along with net gains of $24 million on U.S. dollar interest rate swaps as interest rates rose. The derivative net gains in 2005 were primarily the result of positive mark-to-market adjustments of $79 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, driven by the strengthening of the U.S. dollar.

During the first quarter of 2006, we recorded total other than temporary impairments of $11 million attributable to the Financial Services Businesses, compared to total other than temporary impairments of $13 million attributable to the Financial Services Businesses in the first quarter of 2005. The impairments in the first quarter of 2006 consisted of $10 million relating to fixed maturities and $1 million relating to equity securities. The impairments in the first quarter of 2005 consisted of $5 million relating to fixed maturities, $3 million relating to equity securities and $5 million relating to other invested assets which include commercial loans, real estate investments and investments in joint ventures and partnerships.

The impairments recorded on fixed maturities in the first quarter of 2006 consist of $9 million on public securities and $1 million on private securities, compared with fixed maturity impairments of $4 million on public securities and $1 million on private securities in the first quarter of 2005. Impairments in the first quarter of 2006 were concentrated in the finance sector and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Impairments in the first quarter of 2005 were concentrated in the manufacturing sector and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Closed Block Business

For the Closed Block Business, net realized investment gains in the first quarter of 2006 were $60 million, compared to net realized investment gains of $203 million in the first quarter of 2005. Realized gains in the first quarter of 2006 and 2005 included net realized gains on sales and maturities of fixed maturity securities of $1 million and $92 million, respectively, and private bond prepayment premiums of $15 million and $20 million, respectively. Partially offsetting these gains are fixed maturity impairments of $4 million and credit-related losses of $4 million in the first quarter of 2006 and fixed maturity impairments of $7 million and credit-related losses of $1 million in the first quarter of 2005. We realized net gains on equity securities of $70 million in the first quarter of 2006, compared to net gains of $85 million in the first quarter of 2005, as a result of sales pursuant to our active management strategy. Net losses on derivatives were $61 million in the first quarter of 2006, compared to net gains of $9 million in the first quarter of 2005. Derivative losses in the first quarter of 2006 were primarily the result of net losses of $26 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio. Derivative gains in the first quarter of 2005 were largely attributable to gains on forward contracts of to-be-announced securities primarily related to our dollar roll program. Other net gains of $43 million in the first quarter of 2006 were due to the sale of an investment in a real estate operating company.

During the first quarter of 2006, we recorded total other than temporary impairments of $16 million attributable to the Closed Block Business, compared to total other than temporary impairments of $8 million attributable to the Closed Block Business in the first quarter of 2005. The impairments in the first quarter of 2006

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consisted of $4 million relating to fixed maturities, $11 million relating to equity securities and $1 million relating to other invested assets as defined above. The impairments in the first quarter of 2005 consisted of $7 million relating to fixed maturities and $1 million relating to equity securities.

The impairments recorded on fixed maturities in the first quarter of 2006 consist of $3 million on public securities and $1 million on private securities, compared with $7 million on private securities in the first quarter of 2005. Impairments in the first quarter of 2006 were concentrated in the manufacturing and services sectors and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Impairments in the first quarter of 2005 were concentrated in the manufacturing sector and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Included in private fixed maturity impairments for the first quarter of 2005 were impairments relating to an investment in an electronic test equipment distributor.

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial loans, equity securities and other invested assets. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

Our total general account investments were $216.4 billion and $216.9 billion as of March 31, 2006 and December 31, 2005, respectively, which are segregated between the Financial Services Businesses and the Closed Block Business. Total general account investments attributable to the Financial Services Businesses were $149.1 billion and $149.4 billion as of March 31, 2006 and December 31, 2005, respectively, while total general account investments attributable to the Closed Block Business were $67.3 billion and $67.5 billion as of March 31, 2006 and December 31, 2005, respectively. The following table sets forth the composition of the investments of our general account as of the dates indicated.

	March 31, 2006			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 86,940	$ 36,471	$ 123,411	57.1%
Public, held to maturity, at amortized cost	3,260		3,260	1.5
Private, available for sale, at fair value	17,288	12,601	29,889	13.8
Private, held to maturity, at amortized cost	277		277	0.1
Trading account assets supporting insurance liabilities, at fair value	13,877		13,877	6.4
Other trading account assets, at fair value	126		126	0.1
Equity securities, available for sale, at fair value	2,146	3,341	5,487	2.6
Commercial loans, at book value	15,834	7,154	22,988	10.6
Policy loans, at outstanding balance	3,094	5,403	8,497	3.9

Other long-term investments(1)	3,960	897	4,857	2.2
Short-term investments	2,252	1,431	3,683	1.7
Total general account investments	149,054	67,298	216,352	100.0%
Invested assets of other entities and operations(2)	5,853		5,853	
Total investments	$ 154,907	$ 67,298	$ 222,205	

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	December 31, 2005			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 87,546	$ 36,133	$ 123,679	57.0%
Public, held to maturity, at amortized cost	3,135		3,135	1.4
Private, available for sale, at fair value	17,651	13,361	31,012	14.3
Private, held to maturity, at amortized cost	227		227	0.1
Trading account assets supporting insurance liabilities, at fair value	13,781		13,781	6.4
Other trading account assets, at fair value	124		124	0.1
Equity securities, available for sale, at fair value	2,040	2,968	5,008	2.3
Commercial loans, at book value	15,781	7,264	23,045	10.6
Policy loans, at outstanding balance	2,967	5,403	8,370	3.8
Other long-term investments(1)	3,725	973	4,698	2.2
Short-term investments	2,456	1,394	3,850	1.8
Total general account investments	149,433	67,496	216,929	100.0%
Invested assets of other entities and operations(2)	4,472		4,472	
Total investments	$ 153,905	$ 67,496	$ 221,401	

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures (other than our investment in operating joint ventures, including our investment in Wachovia Securities) and partnerships, investment real estate held through direct ownership, our interest in separate account investments and other miscellaneous investments.

(2) Includes invested assets of securities brokerage, securities trading, banking operations, real estate and relocation services, and asset management operations. Excludes assets of our asset management operations managed for third parties and those assets classified as separate account assets on our balance sheet.

The decrease in general account investments attributable to the Financial Services Businesses in 2006 was primarily due to the net decline in market values attributable to the rising interest rate environment, partially offset by portfolio growth as a result of the reinvestment of net investment income and changes in foreign exchange rates. The decrease in general account investments attributable to the Closed Block Business in 2006 was primarily due to the net decline in market values attributable to the rising interest rate environment, partially offset by portfolio growth as a result of the reinvestment of net investment income.

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We have substantial insurance operations in Japan, with 30% of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of both March 31, 2006 and December 31, 2005. The increase in Japanese general account investments in 2006 is primarily attributable to portfolio growth as a result of the reinvestment of net investment income and changes in foreign exchange rates. The following table sets forth the composition of the investments of our Japanese general account as of the dates indicated.

	March 31, 2006	December 31, 2005
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 31,379	$ 30,933
Public, held to maturity, at amortized cost	3,260	3,135
Private, available for sale, at fair value	2,870	2,659
Private, held to maturity, at amortized cost	277	227
Trading account assets supporting insurance liabilities, at fair value	1,066	1,022
Other trading account assets, at fair value	28	26
Equity securities, available for sale, at fair value	1,858	1,732
Commercial loans, at book value	2,310	2,278
Policy loans, at outstanding balance	974	943
Other long-term investments(1)	871	941
Short-term investments	40	326
Total Japanese general account investments(2)	$ 44,933	$ 44,222

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures (other than our investment in operating joint ventures, including our investment in Wachovia Securities) and partnerships, investment real estate held through direct ownership, our interest in separate account investments and other miscellaneous investments.

(2) Excludes assets of our asset management operations, including assets managed for third parties, and those assets classified as separate accounts assets on our balance sheet.

Our Japanese insurance operations use the Yen as their functional currency, as it is the currency in which they conduct the majority of their operations. Although the majority of the Japanese general account is invested in Yen denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. dollars. As of March 31, 2006, our Japanese insurance operations had $7.6 billion of investments denominated in U.S. dollars, including $1.5 billion that were hedged to Yen through third party contracts. As of December 31, 2005, our Japanese insurance operations had $7.4 billion of investments denominated in U.S. dollars, including $1.7 billion that were hedged to Yen through third party contracts.

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Investment Results

The following tables set forth the income yield and investment income, excluding realized investment gains (losses), for each major investment category of our general account for the periods indicated.

	Three Months Ended March 31, 2006					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.75%	$ 1,256	6.44%	$ 733	5.25%	$ 1,989
Trading account assets supporting insurance liabilities	4.48	155			4.48	155
Equity securities	2.97	12	2.15	14	2.47	26
Commercial loans	5.96	234	8.08	144	6.62	378
Policy loans	4.86	37	6.10	81	5.65	118
Short-term investments and cash equivalents	4.18	71	6.35	46	4.51	117
Other investments	10.41	100	16.86	39	11.65	139
Gross investment income before investment expenses	4.98	1,865	6.57	1,057	5.44	2,922
Investment expenses	(0.21)	(145)	(0.25)	(125)	(0.22)	(270)
Investment income after investment expenses	4.77%	1,720	6.32%	932	5.22%	2,652
Investment results of other entities and operations(2)		87				87
Total investment income		$ 1,807		$ 932		$ 2,739

	Three Months Ended March 31, 2005					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.58%	$ 1,150	6.52%	$ 698	5.16%	$ 1,848
Trading account assets supporting insurance liabilities	4.00	130			4.00	130
Equity securities	3.40	13	2.43	13	2.83	26
Commercial loans	6.59	257	7.55	136	6.89	393
Policy loans	4.65	34	6.01	81	5.53	115
Short-term investments and cash equivalents	2.02	39	6.43	26	2.46	65
Other investments	6.20	64	16.21	41	8.14	105
Gross investment income before investment expenses	4.70	1,687	6.62	995	5.26	2,682
Investment expenses	(0.19)	(101)	(0.23)	(77)	(0.20)	(178)

Investment income after investment expenses	4.51%	1,586	6.39%	918	5.06%	2,504
Investment results of other entities and operations(2)		47				47
Total investment income		$ 1,633		$ 918		$ 2,551

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(1) Yields are annualized, for interim periods, and based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. Prior periods yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of securities brokerage, securities trading, banking operations, real estate and relocation services, and asset management operations.

The net investment income yield on our general account investments after investment expenses, excluding realized investment gains (losses), was 5.22% and 5.06% for the three months ended March 31, 2006 and 2005, respectively. The net investment income yield attributable to the Financial Services Businesses was 4.77% for the three months ended March 31, 2006, compared to 4.51% for the three months ended March 31, 2005. See below for a discussion of the change in the Financial Services Businesses yields.

The net investment income yield attributable to the Closed Block Business was 6.32% for the three months ended March 31, 2006, compared to 6.39% for the three months ended March 31, 2005. The decrease was primarily due to net declines in fixed maturity yields, primarily attributable to the impact of investment activities in a low interest rate environment.

The following tables set forth the income yield and investment income, excluding realized investment gains (losses), for each major investment category of the Financial Services Business general account, excluding the Japanese portion of the general account which is presented separately below, for the periods indicated.

	Three months ended March 31, 2006		Three months ended March 31, 2005	
	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)		
Fixed maturities	6.06%	$ 1,031	6.13%	$ 947
Trading account assets supporting insurance liabilities	4.77	153	4.22	128
Equity securities	7.28	4	18.74	5
Commercial loans	6.42	215	7.22	224
Policy loans	5.44	28	5.38	26
Short-term investments and cash equivalents	4.29	68	2.41	38
Other investments	8.86	70	5.16	35
Gross investment income before investment expenses	5.96	1,569	5.84	1,403
Investment expenses	(0.22)	(123)	(0.19)	(79)
Investment income after investment expenses	5.74%	1,446	5.65%	1,324
Investment results of other entities and operations(2)		87		47
Total investment income		$ 1,533		$ 1,371

(1) Yields are annualized, for interim periods, and based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for

securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. Prior periods yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of securities brokerage, securities trading, banking operations, real estate and relocation services, and asset management operations.

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The net investment income yield attributable to the non-Japanese portion of the Financial Services Businesses portfolio was 5.74% for the three months ended March 31, 2006, compared to 5.65% for the three months ended March 31, 2005. The increase was primarily due to an increase in the trading account assets yield due to reinvestment activities at higher rates. Also contributing to the increase was an increase in yields on short-term investments and cash equivalents due to an increase in short-term interest rates.

The following tables set forth the income yield and investment income, excluding realized investment gains (losses), for each major investment category of our Japanese general account for the periods indicated.

	Three months ended March 31, 2006		Three months ended March 31, 2005	
	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)		
Fixed maturities	2.44%	$ 225	2.14%	$ 203
Trading account assets supporting insurance liabilities	0.95	2	1.07	2
Equity securities	2.26	8	2.23	8
Commercial loans	3.27	19	4.12	33
Policy loans	3.61	9	3.30	8
Short-term investments and cash equivalents	3.05	3	0.32	1
Other investments	16.97	30	8.01	29
Gross investment income before investment expenses	2.71	296	2.43	284
Investment expenses	(0.18)	(22)	(0.19)	(22)
Total investment income	2.53%	$ 274	2.24%	$ 262

(1) Yields are annualized, for interim periods, and based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. Prior periods yields are presented on a basis consistent with the current period presentation.

The net investment income yield attributable to the Japanese insurance operations portfolios was 2.53% for the three months ended March 31, 2006, compared to 2.24% for the three months ended March 31, 2005. The increase in yield on the Japanese insurance portfolio between periods is primarily attributable to an increase in U.S. dollar investments and the lengthening of the duration of the investment portfolio. Also contributing to the increase were more favorable results from joint venture investments within other investments. The yield on fixed maturities above includes the effect of U.S. dollar denominated fixed maturities that are not hedged to Yen through third party contracts and provide a yield that is substantially higher than the yield on comparable Japanese fixed maturities. The average value of U.S. dollar denominated fixed maturities that are not hedged to Yen through third party contracts over for the three months ended March 31, 2006 and 2005 was approximately $4.5 billion and $3.1 billion, respectively, based on amortized cost.

Fixed Maturity Securities

Our fixed maturity securities portfolio consists of publicly traded and privately placed debt securities across an array of industry categories. The fixed maturity securities relating to our international insurance operations are primarily comprised of foreign government securities.

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Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Financial Services Businesses as of the dates indicated and the associated gross unrealized gains and losses.

	March 31, 2006				December 31, 2005			
Industry(1)	**Amortized Cost**	**Gross Unrealized Gains(2)**	**Gross Unrealized Losses(2)**	**Fair value**	**Amortized Cost**	**Gross Unrealized Gains(2)**	**Gross Unrealized Losses(2)**	**Fair Value**
	(in millions)							
Corporate Securities:								
Finance	$ 16,457	$ 269	$ 229	$ 16,497	$ 15,550	$ 370	$ 92	$ 15,828
Manufacturing	14,156	519	246	14,429	14,512	737	163	15,086
Utilities	8,181	401	121	8,461	8,404	523	60	8,867
Services	7,112	270	106	7,276	7,145	356	64	7,437
Energy	3,411	192	36	3,567	3,414	272	15	3,671
Retail and Wholesale	2,516	66	36	2,546	2,629	95	21	2,703
Transportation	2,279	124	18	2,385	2,355	158	10	2,503
Other	903	16	6	913	1,029	32	5	1,056
Total Corporate Securities	55,015	1,857	798	56,074	55,038	2,543	430	57,151
Foreign Government	25,461	758	61	26,158	24,725	931	48	25,608
Asset-Backed Securities	12,334	138	52	12,420	12,516	164	35	12,645
Mortgage Backed	9,004	52	129	8,927	9,376	97	97	9,376
U.S. Government	3,881	293	18	4,156	3,357	412	7	3,762
Total	$ 105,695	$ 3,098	$ 1,058	$ 107,735	$ 105,012	$ 4,147	$ 617	$ 108,542

(1) Investment data has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes $33 million of gross unrealized gains and $63 million of gross unrealized losses as of March 31, 2006, compared to $34 million of gross unrealized gains and $51 million of gross unrealized losses as of December 31, 2005 on securities classified as held to maturity, which are not reflected in other comprehensive income.

As a percentage of amortized cost, fixed maturity investments attributable to the Financial Services Businesses as of March 31, 2006, consist primarily of 24% foreign government sector, 16% finance sector, 13% manufacturing sector, 12% asset-backed securities, and 9% mortgage-backed securities compared to 24% foreign government sector, 15% finance sector, 14% manufacturing sector, 12% asset-backed securities sector, and 9% mortgage-backed securities sector as of December 31, 2005. As of March 31, 2006, 96% of the mortgage-backed securities in the Financial Services Businesses were publicly traded agency pass-through securities related to residential mortgage loans. Collateralized mortgage obligations represented the remaining 4% of mortgage-backed securities (and less than 1% of total fixed maturities in the Financial Services Businesses).

The gross unrealized losses related to our fixed maturity portfolio attributable to the Financial Services Businesses were $1.1 billion as of March 31, 2006, compared to $0.6 billion as of December 31, 2005. The gross unrealized losses as of March 31, 2006 were concentrated primarily in the manufacturing, finance and mortgage-backed sectors and as of December 31, 2005 were concentrated primarily in the manufacturing, mortgage-backed and finance sectors.

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The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Closed Block Business as of the dates indicated and the associated gross unrealized gains and losses.

	March 31, 2006				December 31, 2005			
Industry(1)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
				(in millions)				
Corporate Securities:								
Manufacturing	$ 8,691	$ 309	$ 128	$ 8,872	$ 8,490	$ 468	$ 88	$ 8,870
Finance	6,874	128	95	6,907	6,881	188	44	7,025
Utilities	5,838	302	120	6,020	5,875	409	48	6,236
Services	4,755	206	55	4,906	4,722	273	34	4,961
Energy	2,158	138	17	2,279	2,177	201	5	2,373
Retail and Wholesale	1,758	73	21	1,810	1,845	98	15	1,928
Transportation	1,090	69	9	1,150	1,138	96	5	1,229
Other					24	4		28
Total Corporate Securities	31,164	1,225	445	31,944	31,152	1,737	239	32,650
Asset-Backed Securities	7,233	22	24	7,231	6,847	26	13	6,860
U.S. Government	4,933	320	34	5,219	4,828	579	2	5,405
Mortgage Backed	3,294	11	68	3,237	3,145	18	32	3,131
Foreign Government	1,310	139	8	1,441	1,278	175	5	1,448
Total	$ 47,934	$ 1,717	$ 579	$ 49,072	$ 47,250	$ 2,535	$ 291	$ 49,494

(1) Investment data has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

As a percentage of amortized cost, fixed maturity investments attributable to the Closed Block Business as of March 31, 2006 consist primarily of 18% manufacturing sector, 15% asset-backed securities sector 14% finance sector, 12% utilities sector, and 10% U.S. government sector compared to 18% manufacturing sector, 15% finance sector, 14% asset-backed securities sector, 12% utilities sector, and 10% U.S. government sector as of December 31, 2005. As of March 31, 2006, 86% of the mortgage-backed securities in the Closed Block Business were publicly traded agency pass-through securities related to residential mortgage loans. Collateralized mortgage obligations represented the remaining 14% of mortgage-backed securities (and 1% of total fixed maturities in the Closed Block Business).

The gross unrealized losses related to our fixed maturity portfolio attributable to the Closed Block Business were $0.6 billion as of March 31, 2006 and $0.3 billion as of December 31, 2005. The gross unrealized losses were concentrated primarily in the manufacturing, utilities and finance sectors as of March 31, 2006 and December 31, 2005.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office, or SVO, of the National Association of Insurance Commissioners, or NAIC, evaluates the investments of insurers for regulatory reporting purposes and assigns fixed maturity securities to one of six categories called NAIC Designations. NAIC designations of 1 or 2 include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody s or BBB- or higher by Standard & Poor s. NAIC Designations of 3 through 6 are referred to as below investment grade, which include securities rated Ba1 or lower by Moody s and BB+ or lower by Standard & Poor s. As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

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Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency, an agency of the Japanese government. The Financial Services Agency has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the Financial Services Agency s credit quality review and risk monitoring guidelines. The credit quality ratings of the non-U.S. dollar denominated investments of our Japanese insurance companies are based on ratings assigned by Moody s or rating equivalents based on Japanese government ratings.

The amortized cost of our public and private below investment grade fixed maturities attributable to the Financial Services Businesses totaled $6.3 billion, or 6%, of the total fixed maturities as of March 31, 2006 and $6.0 billion, or 6%, of the total fixed maturities as of December 31, 2005. Below investment grade fixed maturities represented 9% of the gross unrealized losses attributable to the Financial Services Businesses as of March 31, 2006, versus 14% of gross unrealized losses as of December 31, 2005.

The amortized cost of our public and private below investment grade fixed maturities attributable to the Closed Block Business totaled $6.2 billion, or 13%, of the total fixed maturities as of March 31, 2006 and $5.9 billion, or 12%, of the total fixed maturities as of December 31, 2005. Below investment grade fixed maturities represented 12% of the gross unrealized losses attributable to the Closed Block Business as of March 31, 2006 compared to 24% as of December 31, 2005.

Public Fixed Maturities Credit Quality

The following table sets forth our public fixed maturity portfolios by NAIC rating attributable to the Financial Services Businesses as of the dates indicated.

(1)(2)		March 31, 2006				December 31, 2005			
NAIC Designation	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 70,005	$ 1,656	$ 542	$ 71,119	$ 68,533	$ 2,289	$ 304	$ 70,518
2	Baa	14,386	545	255	14,676	15,439	747	139	16,047
	Subtotal Investment Grade	84,391	2,201	797	85,795	83,972	3,036	443	86,565
3	Ba	2,734	107	34	2,807	2,715	124	43	2,796
4	B	1,372	78	27	1,423	1,109	72	20	1,161
5	C and lower	105	7	4	108	103	6	5	104
6	In or near default	35	7	1	41	28	10	1	37
	Subtotal Below Investment Grade	4,246	199	66	4,379	3,955	212	69	4,098
Total Public Fixed Maturities		$ 88,637	$ 2,400	$ 863	$ 90,174	$ 87,927	$ 3,248	$ 512	$ 90,663

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.

(2) Includes, as of March 31, 2006 and December 31, 2005, respectively, 19 securities with amortized cost of $376 million (fair value, $377 million) and 18 securities with amortized cost of $146 million (fair value, $147 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(3) Includes $33 million of gross unrealized gains and $59 million gross unrealized losses as of March 31, 2006, compared to $33 million of gross unrealized gains and $51 million of gross unrealized losses as of December 31, 2005 on securities classified as held to maturity that are not reflected in other comprehensive income.

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The following table sets forth our public fixed maturity portfolios by NAIC rating attributable to the Closed Block Business as of the dates indicated.

(1) NAIC Designation	Rating Agency Equivalent	March 31, 2006 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2005 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 25,008	$ 677	$ 277	$ 25,408	$ 24,333	$ 1,141	$ 110	$ 25,364
2	Baa	6,516	240	130	6,626	6,456	353	56	6,753
	Subtotal Investment Grade	31,524	917	407	32,034	30,789	1,494	166	32,117
3	Ba	2,610	101	30	2,681	2,469	119	33	2,555
4	B	1,628	34	20	1,642	1,332	38	19	1,351
5	C and lower	91	4	2	93	99	2	6	95
6	In or near default	20	3	2	21	13	3	1	15
	Subtotal Below Investment Grade	4,349	142	54	4,437	3,913	162	59	4,016
Total Public Fixed Maturities		$ 35,873	$ 1,059	$ 461	$ 36,471	$ 34,702	$ 1,656	$ 225	$ 36,133

(1) Includes, as of March 31, 2006 and December 31, 2005, respectively, 9 securities with amortized cost of $17 million (fair value, $16 million) and 8 securities with amortized cost of $2 million (fair value, $2 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

Private Fixed Maturities Credit Quality

The following table sets forth our private fixed maturity portfolios by NAIC rating attributable to the Financial Services Businesses as of the dates indicated.

(1)(2) NAIC Designation	Rating Agency Equivalent	March 31, 2006 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	December 31, 2005 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 5,606	$ 214	$ 57	$ 5,763	$ 5,626	$ 270	$ 27	$ 5,869
2	Baa	9,372	381	113	9,640	9,436	522	62	9,896
	Subtotal Investment Grade	14,978	595	170	15,403	15,062	792	89	15,765
3	Ba	1,132	53	12	1,173	1,107	44	7	1,144
4	B	557	24	6	575	507	33	5	535
5	C and lower	325	22	6	341	339	22	2	359

6	In or near default	66	4	1	69	70	8	2	76
	Subtotal Below Investment Grade	2,080	103	25	2,158	2,023	107	16	2,114
Total Private Fixed Maturities		$ 17,058	$ 698	$ 195	$ 17,561	$ 17,085	$ 899	$ 105	$ 17,879

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.

(2) Includes, as of March 31, 2006 and December 31, 2005, respectively, 180 securities with amortized cost of $3,913 million (fair value, $3,894 million) and 187 securities with amortized cost of $3,494 million (fair value, $3,542 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(3) Includes zero million of gross unrealized gains and $4 million of gross unrealized losses as of March 31, 2006, compared to $1 million of gross unrealized gains and zero million of gross unrealized losses as of December 31, 2005 on securities classified as held to maturity that are not reflected in other comprehensive income.

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The following table sets forth our private fixed maturity portfolios by NAIC rating attributable to the Closed Block Business as of the dates indicated.

(1) NAIC Designation	Rating Agency Equivalent	March 31, 2006 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2005 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 2,973	$ 160	$ 35	$ 3,098	$ 3,079	$ 208	$ 16	$ 3,271
2	Baa	7,247	389	69	7,567	7,487	549	39	7,997
	Subtotal Investment Grade	10,220	549	104	10,665	10,566	757	55	11,268
3	Ba	1,149	61	11	1,199	1,195	69	8	1,256
4	B	474	21	2	493	570	15	2	583
5	C and lower	161	18	1	178	157	17	1	173
6	In or near default	57	9		66	60	21		81
	Subtotal Below Investment Grade	1,841	109	14	1,936	1,982	122	11	2,093
Total Private Fixed Maturities		$ 12,061	$ 658	$ 118	$ 12,601	$ 12,548	$ 879	$ 66	$ 13,361

(1) Includes, as of March 31, 2006 and December 31, 2005, respectively, 102 securities with amortized cost of $1,162 million (fair value, $1,169 million) and 111 securities with amortized cost of $1,479 million (fair value, $1,543 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

Credit Derivative Exposure to Public Fixed Maturities

In addition to the credit exposure from public fixed maturities noted above, we sell credit derivatives to enhance the return on our investment portfolio by creating credit exposures similar to investments in public fixed maturity cash instruments.

In a credit derivative, we sell credit protection on an identified name, or a basket of names in a first-to-default structure, and in return receive a quarterly premium. With 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, because of the additional credit risk inherent in a basket of named credits, 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 we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced defaulted security or similar security. Subsequent defaults within such instruments require no further payment to counterparties.

The majority of referenced names in the credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit quality, and our credit derivatives generally have maturities of five years or less. As of March 31, 2006 and December 31, 2005, we had $1,560 million and $1,608 million, respectively, in outstanding notional amounts of credit derivative contracts where we have sold credit protection. The Financial Services Businesses had $1,182 million of outstanding notional as of both March 31, 2006 and December 31, 2005. The Closed Block Business had $378 million and $426 million, as of March 31, 2006 and December 31, 2005, respectively. Credit derivative contracts are recorded at fair value with changes in fair value, including the premium received, recorded in "Realized investment gains (losses), net." The premium received for the credit derivatives we sell is included in adjusted operating income as an adjustment to "Realized investment gains (losses), net" over the life of the derivative.

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The following table sets forth our exposure where we have sold credit protection through credit derivatives in the Financial Services Businesses by NAIC rating of the underlying credits as of the dates indicated.

(1) NAIC Designation	Rating Agency Equivalent	March 31, 2006 Notional	March 31, 2006 Fair Value	December 31, 2005 Notional	December 31, 2005 Fair Value
			(in millions)		
1	Aaa, Aa, A	$ 960	$ 6	$ 1,040	$ (1)
2	Baa	212		132	(1)
	Subtotal Investment Grade	1,172		1,172	(2)
3	Ba	10		10	
4	B				
5	C and lower				
6	In or near default				
	Subtotal Below Investment Grade	10		10	
Total		$ 1,182	$ 6	$ 1,182	$ (2)

(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 our exposure where we have sold credit protection through credit derivatives in the Closed Block Business portfolios by NAIC rating of the underlying credits as of the dates indicated.

(1) NAIC Designation	Rating Agency Equivalent	March 31, 2006 Notional	March 31, 2006 Fair Value	December 31, 2005 Notional	December 31, 2005 Fair Value
			(in millions)		
1	Aaa, Aa, A	$ 368	$ 3	$ 396	$ 3
2	Baa	10		30	
	Subtotal Investment Grade	378	3	426	3
3	Ba				
4	B				
5	C and lower				
6	In or near default				
	Subtotal Below Investment Grade				
Total		$ 378	$ 3	$ 426	$ 3

(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.

In addition to selling credit protection, in limited instances we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio. Similar to the above, the premium paid for the credit derivatives we purchase is included in adjusted operating income as an adjustment to Realized investment gains (losses), net over the life of the derivative.

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Unrealized Losses from Fixed Maturity Securities

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

	March 31, 2006		December 31, 2005	
	Amortized Cost	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 23	$ 6	$ 33	$ 8
Six months or greater but less than nine months				
Nine months or greater but less than twelve months				
Twelve months and greater				
Total	$ 23	$ 6	$ 33	$ 8

The gross unrealized losses as of both March 31, 2006 and December 31, 2005 were primarily concentrated in the manufacturing sector.

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

	March 31, 2006		December 31, 2005	
	Amortized Cost	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 4	$ 1	$ 23	$ 5
Six months or greater but less than nine months				
Nine months or greater but less than twelve months				
Twelve months and greater				
Total	$ 4	$ 1	$ 23	$ 5

The gross unrealized losses as of both March 31, 2006 and December 31, 2005 were primarily concentrated in the manufacturing sector.

Impairments of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity asset managers formally review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or industry specific concerns. We classify public fixed maturity securities of issuers that have defaulted as securities not in good standing and all other public watch list assets as closely monitored.

For private placements our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish checks and balances for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly.

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Our private fixed maturity asset managers conduct specific servicing tests on each investment on an ongoing basis to determine whether the investment is in compliance or should be placed on the watch list or assigned an early warning classification. We assign early warning classifications to those issuers that have failed a servicing test or experienced a minor covenant default, and we continue to monitor them for improvement or deterioration. In certain situations, the general account benefits from negotiated rate increases or fees resulting from a covenant breach. We assign closely monitored status to those investments that have been recently restructured or for which restructuring is a possibility due to substantial credit deterioration or material covenant defaults. We classify as not in good standing securities of issuers that are in more severe conditions, for example, bankruptcy or payment default.

Fixed maturity securities classified as held to maturity are those securities where we have the intent and ability to hold the securities until maturity. These securities are reflected at amortized cost in our consolidated statement of financial position. Other fixed maturity securities are considered available for sale, and, as a result, we record unrealized gains and losses to the extent that amortized cost is different from estimated fair value. All held to maturity securities and all available for sale securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consider several factors including, but not limited to, the following:

- the extent (generally if greater than 20%) and the duration (generally if greater than six months) of the decline;
- the reasons for the decline in value (credit event or interest rate related);
- our ability and intent to hold our investment for a period of time to allow for a recovery of value; and
- the financial condition of and near-term prospects of the issuer.

When we determine that there is an other-than-temporary impairment, we record a writedown to estimated fair value, which reduces the cost basis. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. Estimated fair values for fixed maturities, other than private placement securities, are based on quoted market prices or prices obtained from independent pricing services. For these private fixed maturities, fair value is determined typically by using a discounted cash flow model, which relies 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 things, the credit quality of the issuer and the reduced liquidity associated with private placements. The estimated fair value of certain non-performing private placement fixed maturities is based on management s estimates.

Impairments of fixed maturity securities attributable to the Financial Services Businesses were $10 million and $5 million for the three months ended March 31, 2006 and 2005, respectively. Impairments of fixed maturity securities attributable to the Closed Block Business were $4 million and $7 million for the three months ended March 31, 2006 and 2005, respectively. For a further discussion of impairments, see Realized Investment Gains above.

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Trading account assets supporting insurance liabilities

Certain products included in the retirement business we acquired from CIGNA, as well as certain products included in the International Insurance segment, are experience-rated, meaning that the investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial loans, are classified as trading. These trading investments are reflected on the balance sheet 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. Investment income for these investments are reported in Net investment income. The following table sets forth the composition of this portfolio as of the dates indicated.

	March 31, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term Investments and Cash Equivalents	$ 599	$ 599	$ 317	$ 317
Fixed Maturities:				
U.S. Government	178	176	206	208
Foreign Government	327	323	329	330
Corporate Securities	10,020	9,652	9,630	9,369
Asset-Backed Securities	692	684	685	679
Mortgage Backed	1,800	1,745	2,300	2,255
Total Fixed Maturities	13,017	12,580	13,150	12,841
Equity Securities	425	698	388	623
Total trading account assets supporting insurance liabilities	$ 14,041	$ 13,877	$ 13,855	$ 13,781

As of March 31, 2006, as a percentage of amortized cost, 72% of the portfolio was comprised of publicly traded securities, versus 71% of the portfolio as of December 31, 2005. As of both March 31, 2006 and December 31, 2005, 97% of the fixed maturity portion of the portfolio was classified as investment grade. 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, were $(90) million and $(140) million for the three months ended March 31, 2006 and 2005, respectively.

The following table sets forth our public fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC rating as of the dates indicated.

(1)(2)		March 31, 2006				December 31, 2005			
NAIC Designation	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value

					(in millions)				
1	Aaa, Aa, A	$ 7,041	$ 10	$ 230	$ 6,821	$ 6,990	$ 14	$ 170	$ 6,834
2	Baa	1,936	1	77	1,860	2,049	3	65	1,987
	Subtotal Investment Grade	8,977	11	307	8,681	9,039	17	235	8,821
3	Ba	46		5	41	42		5	37
4	B	2			2	2			2
5	C and lower					2			2
6	In or near default								
	Subtotal Below Investment Grade	48		5	43	46		5	41
Total Public Trading Account Assets Supporting Insurance Liabilities		$ 9,025	$ 11	$ 312	$ 8,724	$ 9,085	$ 17	$ 240	$ 8,862

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(1) See Fixed Maturity Securities Credit Quality above for a discussion on NAIC designations.
(2) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(3) Amounts are reported in Asset management fees and other income.

The following table sets forth our private fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC rating as of the dates indicated.

(1)(2) NAIC Designation	Rating Agency Equivalent	March 31, 2006 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	December 31, 2005 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 983	$ 1	$ 39	$ 945	$ 1,087	$ 2	$ 28	$ 1,061
2	Baa	2,619	6	97	2,528	2,564	10	66	2,508
	Subtotal Investment Grade	3,602	7	136	3,473	3,651	12	94	3,569
3	Ba	255	2	10	247	276	2	9	269
4	B	29		1	28	31		1	30
5	C and lower	98		3	95	99		1	98
6	In or near default	8	5		13	8	5		13
	Subtotal Below Investment Grade	390	7	14	383	414	7	11	410
Total Private Trading Account Assets Supporting Insurance Liabilities		$ 3,992	$ 14	$ 150	$ 3,856	$ 4,065	$ 19	$ 105	$ 3,979

(1) See Fixed Maturity Securities Credit Quality above for a discussion on NAIC designations.
(2) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(3) Amounts are reported in Asset management fees and other income.

Commercial Loans

As of both March 31, 2006 and December 31, 2005, we held approximately 11% of our general account investments in commercial loans. This percentage is net of a $0.1 billion allowance for losses as of both March 31, 2006 and December 31, 2005.

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Our loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of our commercial loan portfolio by geographic region and property type as of the dates indicated.

	March 31, 2006				December 31, 2005			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial loans by region:								
U.S. Regions:								
Pacific	$ 4,148	26.1%	$ 2,649	36.9%	$ 4,210	26.5%	$ 2,661	36.4%
South Atlantic	2,793	17.6	1,323	18.4	2,715	17.1	1,401	19.2
Middle Atlantic	2,250	14.1	1,464	20.4	2,197	13.9	1,429	19.6
East North Central	1,440	9.0	470	6.5	1,360	8.6	490	6.7
West South Central	847	5.3	362	5.0	949	6.0	392	5.4
Mountain	831	5.2	428	5.9	928	5.8	429	5.9
West North Central	504	3.2	217	3.0	529	3.3	220	3.0
New England	529	3.3	221	3.1	451	2.9	227	3.1
East South Central	291	1.8	56	0.8	246	1.5	51	0.7
Subtotal U.S.	13,633	85.6	7,190	100.0	13,585	85.6	7,300	100.0
Asia	1,732	10.9			1,726	10.9		
Other	565	3.5			563	3.5		
Total Commercial Loans	$ 15,930	100.0%	$ 7,190	100.0%	$ 15,874	100.0%	$ 7,300	100.0%

	March 31, 2006				December 31, 2005			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial loans by property type:								
Industrial buildings	$ 3,173	19.9%	$ 1,888	26.3%	$ 3,229	20.3%	$ 1,928	26.4%
Office buildings	3,240	20.3	1,368	19.0	3,045	19.2	1,320	18.1
Apartment complexes	2,885	18.1	1,577	21.9	2,958	18.6	1,717	23.5
Retail stores	1,871	11.7	1,027	14.3	1,898	12.0	994	13.6
Other	1,377	8.7	623	8.7	1,381	8.7	638	8.8
Residential properties	1,051	6.6	2		1,037	6.5	2	

Agricultural properties	1,046	6.6	705	9.8	1,032	6.5	701	9.6
Subtotal of collateralized loans	14,643	91.9	7,190	100.0	14,580	91.8	7,300	100.0
Uncollateralized loans	1,287	8.1			1,294	8.2		
Total Commercial Loans	$ 15,930	100.0%	$ 7,190	100.0%	$ 15,874	100.0%	$ 7,300	100.0%

Commercial Loan Quality

We establish valuation allowances for loans that are determined to be non-performing as a result of our loan review process. We define a non-performing loan as a loan for which it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. Valuation allowances for a non-performing loan are recorded based on the present value of expected future cash flows discounted at the loan s effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. We record subsequent adjustments to our valuation allowances when appropriate.

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The following tables set forth the gross carrying value for commercial loans by loan classification as of the dates indicated:

	March 31, 2006		December 31, 2005	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Performing	$ 15,868	$ 7,188	$ 15,812	$ 7,298
Delinquent, not in foreclosure	51	1	52	1
Delinquent, in foreclosure				
Restructured	11	1	10	1
Total Commercial Loans	$ 15,930	$ 7,190	$ 15,874	$ 7,300

The following table sets forth the change in valuation allowances for our commercial loan portfolio as of the dates indicated:

	March 31, 2006		December 31, 2005	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Allowance, beginning of period	$ 93	$ 36	$ 440	$ 41
(Release of)/addition to allowance for losses	2		(269)	(5)
Charge-offs, net of recoveries			(29)	
Change in foreign exchange	1		(49)	
Allowance, end of period	$ 96	$ 36	$ 93	$ 36

Equity Securities

Investment Mix

The equity securities attributable to the Financial Services Businesses relate primarily to our Japanese insurance operations and consist principally of investments in common stock of publicly traded Japanese companies. The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated gross unrealized gains and losses as of the dates indicated:

	March 31, 2006				December 31, 2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
Public equity	$ 1,614	$ 473	$ 14	$ 2,073	$ 1,558	$ 401	$ 19	$ 1,940
Private equity	66	7		73	88	13	1	100
Total Equity	$ 1,680	$ 480	$ 14	$ 2,146	$ 1,646	$ 414	$ 20	$ 2,040

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The equity securities attributable to the Closed Block Business consist principally of investments in common stock of publicly traded companies. The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated gross unrealized gains and losses as of the dates indicated:

	March 31, 2006				December 31, 2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$ 2,741	$ 672	$ 82	$ 3,331	$ 2,526	$ 552	$ 114	$ 2,964
Private equity	8	2		10	4			4
Total Equity	$ 2,749	$ 674	$ 82	$ 3,341	$ 2,530	$ 552	$ 114	$ 2,968

Unrealized Losses from Equity Securities

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

	March 31, 2006		December 31, 2005	
	Cost	Gross Unrealized Losses	Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$	$	$	$
Six months or greater but less than nine months			2	1
Nine months or greater but less than twelve months				
Twelve months and greater				
Total	$	$	$ 2	$ 1

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

	March 31, 2006		December 31, 2005	
	Cost	Gross Unrealized	Cost	Gross Unrealized

		Losses		Losses
		(in millions)		
Less than six months	$ 24	$ 6	$ 72	$ 17
Six months or greater but less than nine months				
Nine months or greater but less than twelve months				
Twelve months and greater				
Total	$ 24	$ 6	$ 72	$ 17

The gross unrealized losses as of both March 31, 2006 and December 31, 2005 were primarily concentrated in the manufacturing and services sectors.

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Impairments of Equity Securities

For those equity securities classified as available-for-sale we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consider several factors including, but not limited to, the following:

- the extent (generally if greater than 20%) and the duration (generally if greater than six months) of the decline;
- the reasons for the decline in value (credit event or market fluctuation);
- our ability and intent to hold the investment for a period of time to allow for a recovery of value; and
- the financial condition of and near-term prospects of the issuer.

When we determine that there is an other-than-temporary impairment, we record a writedown to estimated fair value, which reduces the cost basis. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. Estimated fair values for publicly traded equity securities are based on quoted market prices or prices obtained from independent pricing services. Estimated fair values for privately traded equity securities are determined using valuation and discounted cash flow models that call for a substantial level of judgment from management.

Impairments of equity securities attributable to the Financial Services Businesses were $1 million and $3 million for the three months ended March 31, 2006 and 2005, respectively. Impairments of equity securities attributable to the Closed Block Business were $11 million and $1 million for the three months ended March 31, 2006 and 2005, respectively. For a further discussion of impairments, see Realized Investment Gains above.

Other Long-Term Investments

Other long-term investments are comprised as follows:

	March 31, 2006		December 31, 2005	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				

Real estate related	$ 239	$ 201	$ 168	$ 237
Non real estate related	276	718	235	724
Real estate held through direct ownership	1,116	13	1,119	13
Separate accounts	1,544		1,426	
Other	785	(35)	777	(1)
Total other long-term investments	$ 3,960	$ 897	$ 3,725	$ 973

Trading Account Assets Supporting Insurance Liabilities

Trading account assets supporting insurance liabilities, at fair value include assets that support certain products included in the retirement business we acquired from CIGNA, as well as certain products included in the International Insurance segment, which are experience-rated, meaning that the investment results associated with these products will ultimately accrue to contractholders. Realized and unrealized investment gains and losses for these investments are reported in Asset management fees and other income. Investment income for these investments is reported in Net investment income.

Results for the three months ended March 31, 2006 and 2005 include the recognition of $114 million and $132 million of investment losses, respectively, on Trading account assets supporting insurance liabilities, at

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fair value. These losses primarily represent interest-rate related mark-to-market adjustments on fixed maturity securities. Consistent with our treatment of Realized investment gains (losses), net, these losses, which will ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the three months ended March 31, 2006 and 2005 include decreases of $66 million and $88 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. As prescribed by GAAP, changes in the fair value of mortgage loans, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in mortgage loan value are reflected as a change in the liability to contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders is a decrease related to mortgage loans of $12 million and $29 million, respectively, for the three months ended March 31, 2006 and 2005.

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 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 these divested businesses that have been excluded from adjusted operating income is as follows for the periods indicated:

	Three Months Ended March 31,	
	2006	**2005**
	(in millions)	
Property and casualty insurance	$ 13	$ (7)
Canadian operations	(6)	(2)
Prudential Securities capital markets	1	4
Total divested businesses excluded from adjusted operating income	$ 8	$ (5)

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Liquidity and Capital Resources

Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company and registrant, to meet its obligations, including the payment of shareholder dividends, debt service, operating expenses, capital contributions and obligations to subsidiaries are dividends, returns of capital, interest income from its subsidiaries, and cash and short-term investments. These sources of funds are complemented by Prudential Financial s access to the capital markets and bank facilities. We believe that cash flows from these sources are sufficient to satisfy the current liquidity requirements of Prudential Financial, including reasonably foreseeable contingencies. As of March 31, 2006, Prudential Financial had cash and short-term investments of approximately $380 million, a decrease of $367 million, or 49%, from December 31, 2005. Prudential Financial s principal sources and uses of cash and short-term investments for the first three months of 2006 were as follows:

	Three Months Ended March 31, 2006
	(in millions)
Sources:	
Dividends and/or returns of capital from subsidiaries(1)	$ 142
Proceeds from the issuance of retail medium-term notes, net of repayments(2)	102
Proceeds from the issuance of long-term debt(3)	499
Proceeds from stock-based compensation and exercise of stock options	106
Tax settlement(4)	531
Total sources	1,380
Uses:	
Capital contributions to subsidiaries(5)	(526)
Share repurchases	(604)
Repayment of short-term debt, net of issuances	(223)
Demutualization consideration(6)	(92)
Net payments under intercompany loan agreements	(103)
Shareholder dividends	(44)
Purchase of funding agreements from Prudential Insurance, net of maturities(2)	(102)
Other, net	(53)
Total uses	(1,747)
Net decrease in cash and short-term investments	$ (367)

(1) Includes dividends and/or returns of capital of $22 million from American Skandia, $41 million from our asset management subsidiaries, $31 million from securities subsidiaries, and $48 million from our international insurance and investments subsidiaries.

(2) Proceeds from the issuance of retail medium-term notes are used primarily to purchase funding agreements from Prudential Insurance. See Financing Activities for a discussion of our retail note program.

(3) See Financing Activities.

(4) Tax settlement in connection with the Internal Revenue Service examination of our tax returns for the years 1997 through 2001, which will be distributed to the subsidiaries to which it relates during the second quarter of 2006.

(5) Includes capital contributions of $71 million to our international insurance and investments subsidiaries, $433 million to our securities subsidiaries and $22 million to domestic insurance subsidiaries.

(6) See Uses of Capital Demutualization Consideration.

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Sources of Capital

Prudential Financial is a holding company with insubstantial assets other than investments in subsidiaries. Its capitalization and use of financial leverage are consistent with its ratings targets. We also seek to capitalize subsidiaries and businesses in accordance with their ratings targets. Our financial strength rating targets for our domestic life insurance companies are AA/Aa/AA for Standard & Poor s Rating Services, or S&P, Moody s Investors Service, Inc., or Moody s, and Fitch Ratings Ltd., or Fitch, respectively, and A+ for A.M. Best Company, or A.M. Best. Our long-term senior debt rating objectives for Prudential Financial are A for S&P, Moody s and Fitch and a for A.M. Best. For updates to our ratings since December 31, 2005, see Ratings. The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses (excluding unrealized gains and losses on investments) and outstanding capital debt of the Financial Services Businesses, as discussed below under Financing Activities. Based on these components, the capital position of the Financial Services Businesses as of March 31, 2006 was as follows:

	March 31, 2006
	(in millions)
Attributed equity (excluding unrealized gains and losses on investments)	$ 20,426
Capital debt	4,368
Total capital	$ 24,794

As shown in the table above, as of March 31, 2006, the Financial Services Businesses had approximately $24.8 billion in capital, all of which was available to support the aggregate capital requirements of its three divisions and its Corporate and Other operations. Based on our assessments of these businesses and operations, we believe that the capital of the Financial Services Businesses exceeds the amount required to support its current business risks. We believe that this excess capital, combined with unused borrowing capacity as discussed below, exceeded $3.0 billion as of March 31, 2006. Although some of these resources are in our regulated subsidiaries, and their availability may be subject to prior regulatory notice, approval or non-disapproval, we believe these resources give us substantial financial flexibility. We have not included the ability to issue hybrid equity securities in our estimate of excess capital; however, we may consider issuing these securities as part of our capital structure in the future if the terms are attractive relative to other alternatives.

The Risk Based Capital, or RBC, ratio is the primary measure by which we evaluate the capital adequacy of Prudential Insurance, which encompasses businesses in both the Financial Services Businesses and the Closed Block Business. We manage Prudential Insurance s RBC ratio to a level consistent with our ratings targets. RBC is determined by statutory formulas that consider risks related to the type and quality of the invested assets, insurance-related risks associated with Prudential Insurance s products, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of Prudential Insurance s statutory capitalization.

We have completed the process of arranging the reinsurance of the Closed Block. As of December 31, 2005, we had reinsured 90% of the Closed Block, including 17% with a wholly owned subsidiary of Prudential Financial. Entering into these arrangements allows the RBC formula treatment of the Closed Block to reflect more closely the economic risk profile of the Closed Block. The Closed Block continues to be adequately capitalized to meet its future obligations, which are discussed under Overview Closed Block Business.

We also consider borrowing capacity in evaluating the capital position and financial flexibility of the Financial Services Businesses. We believe that a ratio of capital debt to total capital of 20% or less is consistent with our ratings objectives for Prudential Financial. Our ratio as of December 31, 2005 of 17.6% implies that the Financial Services Businesses could incur up to $0.7 billion in additional capital debt consistent with our ratings objectives.

In the first quarter of 2006, Prudential Insurance submitted a request to the New Jersey Department of Banking and Insurance for an ordinary dividend of $1,081 million and an additional extraordinary dividend of

$764 million. The request is subject to a 30-day approval period or non-disapproval period with respect to the ordinary request. See Restrictions on Dividends and Returns of Capital from Subsidiaries. If approved, we expect Prudential Insurance s Board of Directors to approve and declare the dividends to its sole shareholder, Prudential Holdings, LLC. We currently expect that Prudential Holdings, LLC will distribute approximately $1.6 billion of the dividends to Prudential Financial.

Uses of Capital

Share Repurchases. During the first three months of 2006, the Company repurchased 8.2 million shares of its Common Stock at a total cost of approximately $623 million.

On November 8, 2005, Prudential Financial s Board of Directors authorized the Company to repurchase up to $2.5 billion of its outstanding Common Stock in calendar year 2006. The timing and amount of any repurchases under the authorization are determined by management based on market conditions and other considerations, and the repurchases may be effected in the open market or through negotiated transactions. The 2006 stock repurchase program supersedes all previous repurchase programs.

Demutualization Consideration. In the first three months of 2006, Prudential Financial paid $92 million in demutualization consideration to eligible policyholders whom we have located since the time of demutualization and to governmental authorities in respect of other eligible policyholders whom we continue to be unable to locate. We remain obligated to disburse $111 million of demutualization consideration to the states if we are unable to establish contact with eligible policyholders within time periods prescribed by state unclaimed property laws. These laws historically required remittance after periods ranging from three to seven years, but many states have enacted laws that reduce these holding periods to accelerate the reporting of unclaimed demutualization property.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance and various other companies are subject to regulatory limitations on the payment of dividends and other transfers of funds to affiliates. With respect to Prudential Insurance, New Jersey insurance law provides that, except in the case of extraordinary dividends or distributions, all dividends or distributions paid by Prudential Insurance may be declared or paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and revaluation of assets. Prudential Insurance must also notify the New Jersey Department of Banking and Insurance of its intent to pay a dividend. If the dividend, together with other dividends or distributions made within the preceding twelve months, would exceed a specified statutory limit, Prudential Insurance must also obtain the prior non-disapproval of the Department. The current statutory limitation applicable to New Jersey life insurers generally is the greater of 10% of the prior calendar year s statutory surplus or the prior calendar year s statutory net gain from operations excluding realized investment gains and losses. In addition to these regulatory limitations, the terms of the IHC debt contain restrictions potentially limiting dividends by Prudential Insurance applicable to the Financial Services Businesses in the event the Closed Block Business is in financial distress and under other circumstances.

The laws regulating dividends of the other states and foreign jurisdictions where our other insurance companies are domiciled are similar, but not identical, to New Jersey s. Pursuant to Gibraltar Life s reorganization, in addition to regulatory restrictions, there are certain restrictions on Gibraltar Life s ability to pay dividends to Prudential Financial. There are also regulatory restrictions on the payment of dividends by The Prudential Life Insurance Company, Ltd., or Prudential of Japan. We anticipate that it will be several years before these restrictions will allow Gibraltar Life to pay dividends. Prudential of Japan may be able to begin paying dividends in the next two years. The ability of our asset management subsidiaries, and the majority of our other operating subsidiaries, to pay dividends is largely unrestricted.

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Tax Settlement

As a result of the completion of a review of tax issues by the Joint Committee on Taxation of the United States Congress relating to an examination by the Internal Revenue Service, or IRS, of our consolidated federal income tax returns for the 1997 to 2001 periods, we received a cash refund during March of 2006 of $531 million from the IRS. In the second quarter of 2006, this refund will be distributed to the subsidiaries to which it relates. This distribution will be subject to the restrictions on dividends and transfers to affiliates, as discussed above, applicable to those subsidiaries.

Alternative Sources of Liquidity

Prudential Financial, the parent holding company, maintains an intercompany liquidity account that is designed to maximize the use of cash by facilitating the lending and borrowing of funds between the parent holding company and its affiliates on a daily basis. Depending on the overall availability of cash, the parent holding company invests excess cash on a short-term basis or borrows funds in the capital markets. It also has access to bank facilities. See Lines of Credit and Other Credit Facilities.

Liquidity of Subsidiaries

Domestic Insurance Subsidiaries

General Liquidity

Liquidity refers to a company s ability to generate sufficient cash flows to meet the needs of its operations. We manage the liquidity of our domestic insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. The investment portfolios of our domestic and foreign insurance operations are integral to the overall liquidity of those operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities. A projection process for cash flows from operations serves to ensure sufficient liquidity to meet projected cash outflows, including claims.

Liquidity is measured against internally developed benchmarks that take into account the characteristics of the asset portfolio. The results are affected substantially by the overall quality of our investments.

Cash Flow

The principal sources of liquidity of Prudential Insurance and our other domestic insurance subsidiaries are premiums and annuity considerations, investment and fee income and investment maturities and sales associated with our insurance, annuities and guaranteed products operations. The principal uses of that liquidity include benefits, claims, dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, and payments in connection with financing activities.

We believe that the cash flows from our insurance, annuity and guaranteed products operations are adequate to satisfy the current liquidity requirements of these operations, including under reasonably foreseeable stress scenarios. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels and policyholder perceptions of our financial strength, each of which could lead to reduced cash inflows or increased cash outflows.

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Our domestic insurance operations cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors, our counterparties willingness to extend repurchase and/or securities lending arrangements, and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

In managing the liquidity of our domestic insurance operations, we also consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers from annuity contracts and deposit liabilities. The following table sets forth withdrawal characteristics of our general account annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	March 31, 2006		December 31, 2005	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Not subject to discretionary withdrawal provisions	$ 25,933	40%	$ 24,749	38%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	18,341	28	19,346	30
At market value	1,228	2	1,235	2
At contract value, less surrender charge of 5% or more	2,276	3	2,421	4
Subtotal	47,778	73	47,751	74
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	17,418	27	17,274	26
Total annuity reserves and deposit liabilities	$ 65,196	100%	$ 65,025	100%

Gross account withdrawals for our domestic insurance operations products amounted to $4.8 billion and $3.6 billion for the first three months of 2006 and 2005, respectively. These withdrawals include contractually scheduled maturities of general account guaranteed investment contracts of $516 million and $604 million for the first three months of 2006 and 2005, respectively. Because these contractual withdrawals, as well as the level of surrenders experienced, were consistent with our assumptions in asset/liability management, the associated cash outflows did not have a material adverse impact on our overall liquidity.

Individual life insurance policies are less susceptible to withdrawal than our annuity reserves and deposit liabilities because policyholders may incur surrender charges and be subject to a new underwriting process in order to obtain a new insurance policy. Annuity benefits under group annuity contracts are generally not subject to early withdrawal.

Liquid Assets

Liquid assets include cash, cash equivalents, short-term investments, fixed maturity and public equity securities. As of March 31, 2006 and December 31, 2005, our domestic insurance operations had liquid assets of $135.7 billion and $136.9 billion, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was $9.6 billion and $8.0 billion as of March 31, 2006 and December 31, 2005, respectively. As of March 31, 2006, $110.4 billion, or 90%, of the fixed maturity investments held in our domestic insurance company general account portfolios were rated investment grade. The remaining $12.4 billion, or 10%, of fixed maturity investments were rated non-investment grade. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity

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measures in order to evaluate the adequacy of our domestic insurance operations liquidity under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy current liquidity requirements, including under foreseeable stress scenarios.

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

Our domestic insurance companies liquidity is managed through access to substantial investment portfolios as well as a variety of instruments available for funding and/or managing short-term cash flow mismatches, including from time to time those arising from claim levels in excess of projections. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in realized investment gains or losses or increased borrowing costs affecting results of operations. For a further discussion of realized investment gains or losses, see Realized Investment Gains and General Account Investments Realized Investment Gains. We believe that borrowing temporarily or selling investments earlier than anticipated will not have a material impact on the liquidity of our domestic insurance companies. Payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating and investing activities, respectively, in our financial statements.

Acquisition of Allstate Financial s Variable Annuity Business

On March 8, 2006, the Company announced that it had signed an agreement to acquire Allstate Financial s variable annuity business through coinsurance and modified coinsurance reinsurance arrangements. The Company anticipates paying cash consideration in the form of a reinsurance ceding commission of approximately $580 million, subject to certain adjustments. The transaction is subject to various closing conditions, including state insurance and other regulatory approvals and is expected to close in the second quarter of 2006.

Prudential Funding, LLC

Prudential Funding, LLC, or Prudential Funding, a wholly owned subsidiary of Prudential Insurance, continues to serve as a source of financing for Prudential Insurance and its subsidiaries, as well as for other subsidiaries of Prudential Financial. Prudential Funding operates under a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding s positive tangible net worth at all times. Prudential Funding borrows funds primarily through the direct issuance of commercial paper. Prudential Funding s outstanding loans to other subsidiaries of Prudential Financial have declined over time as it transitions into a financing company primarily for Prudential Insurance and its remaining subsidiaries. While our other subsidiaries continue to borrow from Prudential Funding, they also borrow from Prudential Financial and directly from third parties. The impact of Prudential Funding on liquidity is considered in the internal liquidity measures of the domestic insurance operations.

As of March 31, 2006, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $3.0 billion. As of March 31, 2006, $2.54 billion of these lines were available to Prudential Insurance and Prudential Funding and there were no outstanding borrowings under these facilities as of March 31, 2006. For a further discussion of lines of credit, see Financing Activities Lines of Credit and Other Credit Facilities.

International Insurance Subsidiaries

In our international insurance operations, liquidity is provided through ongoing operations as well as portfolios of liquid assets. In managing the liquidity and the interest and credit risk profiles of our international

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insurance portfolios, we employ a discipline similar to the discipline employed for domestic insurance subsidiaries. We monitor liquidity through the use of internal liquidity measures, taking into account the liquidity of the asset portfolios.

As with our domestic operations, in managing the liquidity of these operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. As of March 31, 2006 and December 31, 2005, our international insurance subsidiaries had total general account insurance related liabilities (other than dividends payable to policyholders) of $46.4 billion and $44.7 billion, respectively. Of those amounts, $26.8 billion and $25.7 billion, respectively, were associated with Gibraltar Life, our largest international insurance subsidiary. Concurrent with our acquisition of Gibraltar Life in April 2001, substantially all of its insurance liabilities were restructured, under a plan of reorganization, to include special surrender penalties on existing policies. These charges mitigate the extent, timing, and profitability impact of withdrawals of funds by customers and apply to $21.8 billion and $21.2 billion of Gibraltar Life s insurance related reserves as of March 31, 2006, and December 31, 2005, respectively. The following table sets forth the schedule (for each fiscal year ending March 31) of special surrender charges on policies that are in force:

2004	2005	2006	2007	2008	2009
12%	10%	8%	6%	4%	2%

Policies issued by Gibraltar Life post-acquisition are not subject to the above restructured policy surrender charge schedule. Policies issued post-acquisition are generally subject to discretionary withdrawal at contract value, less applicable surrender charges, which currently start at 5% or more.

In 2005, a special dividend to certain Gibraltar Life policyholders was payable and will again be payable in 2009. The special dividend is based on 70% of net realized investment gains, if any, over the value of certain real estate and loans, net of transaction costs and taxes, included in the Gibraltar Life reorganization plan. During the first quarter of 2006, Gibraltar made special dividend payments of $143 million to policyholders in the form of either additional policy values or cash. The remainder of the expected total 2005 special dividend ($78 million) will be paid on policy anniversaries through April 1, 2006. As of March 31, 2006, liabilities of $78 million and $272 million related to the years 2005 and 2009, respectively, were included in Policyholders dividends to cover the remaining special dividend. The remaining special dividend payments will take the form of either additional policy values or cash. Gibraltar Life s investment portfolio is structured to provide adequate liquidity for the special dividend.

Prudential of Japan had $15.8 billion and $15.5 billion of general account insurance related liabilities, other than dividends to policyholders, as of March 31, 2006, and December 31, 2005, respectively. Prudential of Japan did not have a material amount of general account annuity reserves and deposit liabilities subject to discretionary withdrawal as of March 31, 2006 or December 31, 2005. Additionally, we believe that the individual life insurance policies sold by Prudential of Japan do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process in order to obtain a new insurance policy.

As of March 31, 2006 and December 31, 2005, our international insurance subsidiaries had cash and short-term investments of approximately $1.4 billion and $1.6 billion, respectively, and fixed maturity investments with fair values of $36.2 billion and $35.6 billion, respectively. As of March 31, 2006, $35.3 billion, or 98%, of the fixed maturity investments held in our international insurance subsidiaries were rated investment grade. The remaining $0.9 billion, or 2%, of fixed maturity investments were rated non-investment grade. Of those amounts, $21.0 billion of the investment grade fixed maturity investments and $0.4 billion of the non-investment grade fixed maturity investments were associated with Gibraltar Life. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate the adequacy of our international insurance operations liquidity under a variety of stress scenarios. We believe that ongoing operations and the liquidity profile of our international insurance assets provide sufficient current liquidity, including under reasonably foreseeable stress scenarios.

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Prudential Securities Group

As of March 31, 2006 and December 31, 2005, Prudential Securities Group s assets totaled $7.7 billion and $6.7 billion, respectively. Prudential Securities Group continues to own our investment in Wachovia Securities as well as the retained wholly owned businesses. The wholly owned businesses remaining in Prudential Securities Group continue to maintain sufficiently liquid balance sheets, consisting mostly of cash and cash equivalents, segregated client assets, short-term collateralized receivables from clients and broker-dealers, and collateralized loans to clients. Distributions from our investment in Wachovia Securities to Prudential Securities Group totaled $70 million and $24 million for the three months ended March 31, 2006 and 2005, respectively. As of March 31, 2006, Prudential Securities Group had remaining assets amounting to $208 million related to its former institutional fixed income activities, compared to $229 million as of December 31, 2005.

Financing Activities

As of March 31, 2006 and December 31, 2005, total short- and long-term debt of the Company on a consolidated basis was $20.4 billion and $19.4 billion, respectively. Outstanding short- and long-term debt of Prudential Financial, the parent company, amounted to $8.7 billion as of March 31, 2006 and $8.3 billion as of December 31, 2005, which amounts are included in the total consolidated outstanding short- and long-term debt of the Company, respectively.

Prudential Financial is authorized to borrow funds from various sources to meet its capital needs, as well as the capital needs of its subsidiaries. The following table sets forth the outstanding short- and long-term debt of Prudential Financial, as of the dates indicated:

	March 31, 2006	December 31, 2005
	(in millions)	
Borrowings:		
General obligation short-term debt:		
Commercial paper	$ 544	$ 766
Floating rate convertible senior notes	2,000	2,000
Current portion of long-term debt	681	677
General obligation long-term debt:		
Senior debt	4,317	3,820
Retail medium-term notes	1,146	1,045
Total general obligations	$ 8,688	$ 8,308

Prudential Financial s short-term debt includes commercial paper borrowings of $544 million and $766 million as of March 31, 2006 and December 31, 2005, respectively. The weighted average interest rate on the commercial paper borrowings under this program was 4.52% and 2.57% for the three months ended March 31, 2006 and 2005, respectively.

Prudential Financial filed with the SEC a new shelf registration statement which automatically became effective March 16, 2006, that permits the issuance of public debt, equity and hybrid securities, superseding the shelf registration that was filed in March 2005. The total principal amount of debt outstanding under the shelf program as of March 31, 2006 was $6.1 billion. The new shelf registration statement was established under the recently adopted SEC rules which allow for automatic effectiveness upon filing, pay-as-you-go fees and the ability to add securities by filing automatically effective amendments for companies qualifying as Well-Known Seasoned Issuers. As a result, this new shelf registration statement has no stated issuance capacity.

On March 16, 2006, Prudential Financial filed a prospectus supplement for a new Medium-Term Notes, Series D program. The Company is authorized to issue up to $5 billion of notes under this program. On March 23, 2006, Prudential Financial issued $250 million of 10-year medium-term notes and $250 million of 30-year medium-term notes under this newly authorized program. The net proceeds from the sale of the notes were used for general corporate purposes, including a loan to one of our domestic insurance subsidiaries. The

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total principal amount of debt outstanding under the previously authorized medium-term note programs and senior notes programs and the newly authorized medium-term notes program as of March 31, 2006 and 2005 was $5.0 billion and $4.5 billion, respectively. The weighted average interest rates on Prudential Financial s domestic medium-term note and senior note programs, including the effect of interest rate hedging activity, were 5.39% and 4.78% for the first three months of 2006 and 2005, respectively.

On March 16, 2006, Prudential Financial filed a prospectus supplement for a retail medium-term notes program under the new shelf registration statement to supersede the 2005 retail medium-term notes program. The Company is authorized to issue up to $2.5 billion of notes under the new program. This retail medium-term notes program serves as a funding source for a spread product of our Retirement segment that is economically similar to funding agreement-backed medium-term notes issued to institutional investors, except that the notes are senior obligations of Prudential Financial and are purchased by retail investors. The total principal amount of debt outstanding under this program as of March 31, 2006 and December 31, 2005 was $1,150 million and $1,047 million, respectively. The weighted average interest rate on this debt, including the effect of interest rate hedging activity, was 5.43% and 3.11% for the first three months of 2006 and 2005 respectively.

On March 16, 2006, Prudential Financial filed a prospectus supplement to register under the new shelf registration statement resales of the $2.0 billion of floating rate convertible senior notes that were issued in a private placement in November 2005.

Current capital markets activities for the Company on a consolidated basis principally consist of unsecured short-term and long-term debt borrowings issued by Prudential Funding and Prudential Financial, unsecured third party bank borrowing, and asset-based or secured financing. The secured financing arrangements include transactions such as securities lending and repurchase agreements, which we generally use to finance liquid securities in our short-term spread portfolios, primarily within Prudential Insurance.

The following table sets forth total consolidated borrowings of the Company as of the dates indicated:

	March 31, 2006	December 31, 2005
	(in millions)	
Borrowings:		
General obligation short-term debt	$ 11,354	$ 11,113
General obligation long-term debt:		
Senior debt	6,537	5,772
Surplus notes	693	693
Total general obligation long-term debt	7,230	6,465
Total general obligations	18,584	17,578
Limited and non-recourse borrowing:		
Limited and non-recourse short-term debt	2	1
Limited and non-recourse long-term debt(1)	1,804	1,805
Total limited and non-recourse borrowing	1,806	1,806
Total borrowings(2)	20,390	19,384

Total asset-based financing	18,680	18,558
Total borrowings and asset-based financings	$ 39,070	$ 37,942

(1) As of March 31, 2006 and December 31, 2005, $1.8 billion of limited and non-recourse debt outstanding was attributable to the Closed Block Business.

(2) Does not include $5.0 billion and $4.2 billion of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes as of March 31, 2006 and December 31, 2005, respectively. These notes are included in Policyholders account balances. For additional information see Funding Agreement Notes Issuance Program.

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Total general debt obligations increased by $1,006 million, or 6%, from December 31, 2005 to March 31, 2006, reflecting a $765 million net increase in long-term debt and a $241 million net increase in short-term debt. The increase in long-term debt was driven primarily by the net issuance of $102 million of retail medium-term notes by Prudential Financial under our retail medium-term notes program and $499 million of medium-term notes issued under our medium-term note program. The net increase in short-term debt was driven by investment opportunities in our short- and medium-term spread portfolio.

Prudential Funding s commercial paper and master note borrowings as of March 31, 2006 and December 31, 2005 were $7.0 billion and $6.9 billion, respectively. In the second quarter of 2002, Prudential Financial issued a subordinated guarantee covering Prudential Funding s domestic commercial paper program. The weighted average interest rates on the commercial paper borrowings and master notes were 4.43% and 2.45% for the three months ended March 31, 2006 and 2005, respectively.

The total principal amount of debt outstanding under Prudential Funding s domestic medium-term note programs was $772 million, as of both March 31, 2006 and December 31, 2005. The weighted average interest rates on Prudential Funding s long-term debt, including the effect of interest rate hedging activity, were 5.32%, and 3.33% for the three months ended March 31, 2006 and 2005, respectively.

Prudential Insurance had outstanding surplus notes totaling $693 million as of March 31, 2006 and December 31, 2005. These debt securities, which are included as surplus of Prudential Insurance on a statutory accounting basis, are subordinated to other Prudential Insurance borrowings and to policyholder obligations and are subject to regulatory approvals for principal and interest payments.

Our total borrowings consist of capital debt, investment related debt, securities business related debt and debt related to specified other businesses. Capital debt is borrowing that is used or will be used to meet the capital requirements of Prudential Financial as well as borrowings invested in equity or debt securities of direct or indirect subsidiaries of Prudential Financial and subsidiary borrowings utilized for capital requirements. Investment related borrowings consist of debt issued to finance specific investment assets or portfolios of investment assets, including institutional spread lending investment portfolios, real estate and real estate related investments held in consolidated joint ventures, as well as institutional and insurance company portfolio cash flow timing differences. Securities business related debt consists of debt issued to finance primarily the liquidity of our broker-dealers and our capital markets and other securities business related operations. Debt related to specified other businesses consists of borrowings associated with our individual annuity business, real estate franchises and relocation services. Borrowings under which either the holder is entitled to collect only against the assets pledged to the debt as collateral, or has only very limited rights to collect against other assets, have been classified as limited and non-recourse debt. Consolidated borrowings as of March 31, 2006 and December 31, 2005 include $1.8 billion of limited and non-recourse debt attributable to the Closed Block Business.

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The following table summarizes our borrowings, categorized by use of proceeds, as of the dates indicated:

	March 31, 2006	December 31, 2005
	(in millions)	
General obligations:		
Capital debt	$ 4,368	$ 4,199
Investment related	9,979	9,558
Securities business related	3,238	2,865
Specified other businesses	999	956
Total general obligations	18,584	17,578
Limited and non-recourse debt	1,806	1,806
Total borrowings	$ 20,390	$ 19,384
Short-term debt	$ 11,356	$ 11,114
Long-term debt	9,034	8,270
Total borrowings	$ 20,390	$ 19,384
Borrowings of Financial Services Businesses	$ 16,969	$ 15,967
Borrowings of Closed Block Business	3,421	3,417
Total borrowings	$ 20,390	$ 19,384

Funding Agreement Notes Issuance Program

In 2003, Prudential Insurance established a Funding Agreement Notes Issuance Program pursuant to which a Delaware statutory trust issues medium-term notes (which are included in our statements of financial position in Policyholders account balances and not included in the foregoing table) secured by funding agreements issued to the trust by Prudential Insurance and included in our Retirement segment. The funding agreements provide cash flow sufficient for the debt service on the medium-term notes. The medium-term notes are sold in transactions not requiring registration under the Securities Act of 1933, as amended. As of March 31, 2006 and December 31, 2005, the outstanding aggregate principal amount of such notes totaled approximately $5.0 billion and $4.2 billion, respectively, out of a total authorized amount of up to $6 billion. The notes have fixed or floating interest rates and original maturities ranging from two to seven years.

Lines of Credit and Other Credit Facilities

As of March 31, 2006, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $3.0 billion. Of this amount, $0.5 billion is under a facility that expires in December 2006, which includes 13 financial institutions, $1.5 billion under a facility that expires in September 2010, which includes 22 financial institutions and $1.0 billion under a facility that expires in December 2010, which includes 18 financial institutions. Borrowings under the outstanding facilities will mature no later than the respective expiration dates of the facilities. We use these facilities primarily as back-up liquidity lines for our commercial paper programs, and there were no outstanding borrowings under any of these facilities as of March 31, 2006.

Our ability to borrow under these facilities is conditioned on the continued satisfaction of customary conditions, including maintenance at all times by Prudential Insurance of total adjusted capital of at least $5.5 billion based on statutory accounting principles prescribed under New Jersey law. Prudential Insurance s total adjusted capital as of December 31, 2005, was approximately $10.6 billion and continues to be above the $5.5 billion threshold. The ability of Prudential Financial to borrow under these facilities is also conditioned on its maintenance of consolidated net worth of at least $12.5 billion, calculated in accordance with GAAP. Prudential Financial s net worth on a consolidated basis totaled $22.3 billion and $22.8 billion as of March 31, 2006 and

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December 31, 2005, respectively. In addition, we have a credit facility, expiring in December 2007, utilizing a third party-sponsored, asset-backed commercial paper conduit, under which we can borrow up to $750 million. This facility is supported in its entirety by unsecured committed lines of credit from many of the financial institutions included in our other facilities. Our actual ability to borrow under this facility depends on market conditions, and with respect to the lines of credit, Prudential Financial is subject to the same net worth requirement as with our other facilities. We also use uncommitted lines of credit from banks and other financial institutions.

Ratings

There have been no updates to the ratings that were included in our Annual Report on Form 10-K.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of change in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates or equity or commodity prices. To varying degrees, the investment and trading activities supporting all of our products and services generate market risks. There have been no material changes in our market risk exposures from December 31, 2005, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2005, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, filed with the Securities Exchange Commission.

Item 4. ***Controls and Procedures***

In order to ensure that the information we must disclose in our filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2005. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2006, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended March 31, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

We are subject to legal and regulatory actions in the ordinary course of our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and proceedings generally applicable to business practices in the industries in which we operate. We are also subject to litigation arising out of our general business activities, such as our investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment. In some of our pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages.

The Company continues to actively seek a global resolution of the investigations into market timing activities at the former Prudential Securities (PSI) with the Securities and Exchange Commission, the United States Attorney, District of Massachusetts, the New York Attorney General s Office, the New York Stock Exchange, the National Association of Securities Dealers, the New Jersey Bureau of Securities and the Securities Division of Massachusetts. While not assured, we currently expect to achieve such a settlement without material additions to our reserve for estimated settlement costs. If achieved, any settlement would involve fines and penalties and could involve continuing monitoring and changes to and/or supervision of business practices, findings that may adversely affect existing litigation or cause additional litigation, adverse publicity and other adverse impacts to our businesses.

Our subsidiary, American Skandia Life Assurance Corporation, has commenced 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 we purchased the American Skandia entities in May 2003 from Skandia.

In March 2006, in *Azar v. Prudential Insurance*, the modal premium class action, the New Mexico District Court reiterated its denial of a multi-state class and maintained the certification of a class of New Mexico resident purchasers of Prudential life insurance. The court also indicated it would enter judgment on liability against Prudential for the New Mexico class.

In April 2006, in *CHS Electronics, Inc. v. Credit Suisse First Boston Corp., et al.*, an action alleging antitrust claims in connection with underwriting fees for initial public offerings, the United States District Court for the Southern District of New York denied class certification.

In *Shane v. Humana*, a provider physician nationwide class action, the United States District Court for the Southern District of Florida entered a final order in September 2005 approving the settlement of these claims by Prudential Insurance, which provides for a payment to plaintiffs in the amount of $22 million. In February 2006, the court dismissed the two appeals of the final order. In April 2006, the court reinstated the appeal that challenged only the legal fees paid to plaintiffs counsel.

Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, the outcomes cannot be predicted. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period.

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Management believes, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on our financial position.

See our Annual Report on Form 10-K for the year ended December 31, 2005 for additional discussion of our litigation and regulatory matters.

Item 1A. ***Risk Factors***

You should carefully consider the risks described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward-Looking Statements above and the risks of our businesses described elsewhere in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) The following table provides information about purchases by the Company during the quarter ended March 31, 2006, of its Common Stock.

Period	Total Number of Shares Purchased(1) (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program (1)
January 1, 2006 through January 31, 2006	2,658,905	$ 75.41	2,650,500	
February 1, 2006 through February 28, 2006	3,082,841	$ 75.65	2,512,200	
March 1, 2006 through March 31, 2006	3,063,797	$ 76.22	3,053,500	
Total	8,805,543		8,216,200	$ 1,877,204,253

(1) In November 2005, Prudential Financial s Board of Directors authorized the Company to repurchase up to $2.5 billion of its outstanding Common Stock in calendar year 2006.

(2) Includes shares of Common Stock withheld from participants for income tax withholding purposes whose shares of restricted stock, restricted stock units, and performance shares vested during the period. Restricted stock, restricted stock units, and performance shares were issued to participants pursuant to the Prudential Financial, Inc. Omnibus Incentive Plan that was adopted by the Company s Board of Directors in March 2003.

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Item 6. ***Exhibits***

10.1	Second Amendment to the Prudential Severance Plan, dated May 1, 2006.*
10.2	Second Amendment to the Prudential Severance Plan for Executives, dated May 1, 2006.*
10.3	Second Amendment to the Prudential Severance Plan for Senior Executives, dated May 1, 2006.*
12.1	Statement of Ratio of Earnings to Fixed Charges.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer.
32.2	Section 906 Certification of the Chief Financial Officer.

* This exhibit is a management contract or compensatory plan or arrangement.

Prudential Financial, Inc. will furnish upon request a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Shareholder Services

Prudential Financial, Inc.

751 Broad Street, 6th Floor

Newark, NJ 07102

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SIGNATURES

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

PRUDENTIAL FINANCIAL, INC.

By: /s/ RICHARD J. CARBONE

Richard J. Carbone

Senior Vice President and Chief Financial Officer

(Authorized signatory and principal financial officer)

Date: May 4, 2006

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Exhibit Index

Exhibit Number and Description

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