

PRUDENTIAL FINANCIAL INC

Form 10-Q

May 06, 2011

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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, 2011

OR

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

For the Transition Period from            to

Commission File Number 001-16707

# Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey  
(State or Other Jurisdiction of

Incorporation or Organization)

22-3703799  
(I.R.S. Employer

Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

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

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

As of April 30, 2011, 486 million shares of the registrant's Common Stock (par value \$0.01) were outstanding. In addition, 2 million shares of the registrant's Class B Stock, for which there is no established public trading market, were outstanding.



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### **Forward-Looking Statements**

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, includes, plans, assumes, estimates, projects, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement, with regard to variable annuity or other product guarantees; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for retirement expense; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) 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; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions, including risks associated with the acquisition of certain insurance operations of American International Group, Inc. in Japan; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (27) 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, 2010 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.

**PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Financial Position**

March 31, 2011 and December 31, 2010 (in millions, except share amounts)

|                                                                                                                                                                            | March 31,<br>2011 | December 31,<br>2010 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                              |                   |                      |
| Fixed maturities, available for sale, at fair value (amortized cost: 2011 \$225,735; 2010 \$187,754)(1)                                                                    | \$ 231,817        | \$ 194,983           |
| Fixed maturities, held to maturity, at amortized cost (fair value: 2011 \$5,283; 2010 \$5,477)(1)                                                                          | 5,102             | 5,226                |
| Trading account assets supporting insurance liabilities, at fair value(1)                                                                                                  | 18,314            | 17,771               |
| Other trading account assets, at fair value                                                                                                                                | 3,758             | 4,225                |
| Equity securities, available for sale, at fair value (cost: 2011 \$8,557; 2010 \$6,469)                                                                                    | 10,110            | 7,741                |
| Commercial mortgage and other loans (includes \$287 and \$364 measured at fair value under the fair value option at March 31, 2011 and December 31, 2010, respectively)(1) | 32,960            | 31,831               |
| Policy loans                                                                                                                                                               | 11,272            | 10,667               |
| Other long-term investments (includes \$264 and \$258 measured at fair value under the fair value option at March 31, 2011 and December 31, 2010, respectively)(1)         | 7,959             | 6,171                |
| Short-term investments(1)                                                                                                                                                  | 7,018             | 5,297                |
| Total investments                                                                                                                                                          | 328,310           | 283,912              |
| Cash and cash equivalents(1)                                                                                                                                               | 10,995            | 12,915               |
| Accrued investment income(1)                                                                                                                                               | 2,760             | 2,377                |
| Deferred policy acquisition costs                                                                                                                                          | 16,973            | 16,435               |
| Other assets(1)                                                                                                                                                            | 21,588            | 16,439               |
| Separate account assets(1)                                                                                                                                                 | 218,382           | 207,776              |
| <b>TOTAL ASSETS</b>                                                                                                                                                        | <b>\$ 599,008</b> | <b>\$ 539,854</b>    |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                              |                   |                      |
| <b>LIABILITIES</b>                                                                                                                                                         |                   |                      |
| Future policy benefits                                                                                                                                                     | \$ 153,888        | \$ 133,874           |
| Policyholders' account balances                                                                                                                                            | 133,031           | 106,441              |
| Policyholders' dividends                                                                                                                                                   | 3,594             | 3,378                |
| Securities sold under agreements to repurchase                                                                                                                             | 5,750             | 5,885                |
| Cash collateral for loaned securities                                                                                                                                      | 2,297             | 2,171                |
| Income taxes                                                                                                                                                               | 5,602             | 6,353                |
| Short-term debt                                                                                                                                                            | 2,432             | 1,982                |
| Long-term debt                                                                                                                                                             | 24,033            | 23,653               |
| Other liabilities(1)                                                                                                                                                       | 16,753            | 15,413               |
| Separate account liabilities(1)                                                                                                                                            | 218,382           | 207,776              |
| Total liabilities                                                                                                                                                          | 565,762           | 506,926              |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)</b>                                                                                                                |                   |                      |
| <b>EQUITY</b>                                                                                                                                                              |                   |                      |
| Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)                                                                                               | 0                 | 0                    |
|                                                                                                                                                                            | 6                 | 6                    |

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Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,110,831 and 660,110,810 shares issued at March 31, 2011 and December 31, 2010, respectively)

Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively)

|                                                                                                                                   |          |          |
|-----------------------------------------------------------------------------------------------------------------------------------|----------|----------|
|                                                                                                                                   | 0        | 0        |
| Additional paid-in capital                                                                                                        | 24,210   | 24,223   |
| Common Stock held in treasury, at cost (174,559,414 and 176,312,047 shares at March 31, 2011 and December 31, 2010, respectively) | (11,062) | (11,173) |
| Accumulated other comprehensive income (loss)                                                                                     | 2,564    | 2,978    |
| Retained earnings                                                                                                                 | 16,978   | 16,381   |

|                                         |        |        |
|-----------------------------------------|--------|--------|
| Total Prudential Financial, Inc. equity | 32,696 | 32,415 |
|-----------------------------------------|--------|--------|

|                          |     |     |
|--------------------------|-----|-----|
| Noncontrolling interests | 550 | 513 |
|--------------------------|-----|-----|

|              |        |        |
|--------------|--------|--------|
| Total equity | 33,246 | 32,928 |
|--------------|--------|--------|

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 599,008</b> | <b>\$ 539,854</b> |
|-------------------------------------|-------------------|-------------------|

(1) See Note 5 for details of balances associated with variable interest entities.

*See Notes to Unaudited Interim Consolidated Financial Statements*

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Operations****Three Months Ended March 31, 2011 and 2010 (in millions, except per share amounts)**

|                                                                                                                 | <b>Three Months Ended<br/>March 31,</b> |               |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------|
|                                                                                                                 | <b>2011</b>                             | <b>2010</b>   |
| <b>REVENUES</b>                                                                                                 |                                         |               |
| Premiums                                                                                                        | \$ 5,521                                | \$ 4,242      |
| Policy charges and fee income                                                                                   | 948                                     | 816           |
| Net investment income                                                                                           | 3,118                                   | 2,872         |
| Asset management fees and other income                                                                          | 649                                     | 928           |
| Realized investment gains (losses), net:                                                                        |                                         |               |
| Other-than-temporary impairments on fixed maturity securities                                                   | (575)                                   | (1,249)       |
| Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income         | 471                                     | 995           |
| Other realized investment gains (losses), net                                                                   | 54                                      | 643           |
| Total realized investment gains (losses), net                                                                   | (50)                                    | 389           |
| Total revenues                                                                                                  | 10,186                                  | 9,247         |
| <b>BENEFITS AND EXPENSES</b>                                                                                    |                                         |               |
| Policyholders' benefits                                                                                         | 5,433                                   | 4,243         |
| Interest credited to policyholders' account balances                                                            | 823                                     | 1,235         |
| Dividends to policyholders                                                                                      | 548                                     | 517           |
| Amortization of deferred policy acquisition costs                                                               | 459                                     | 426           |
| General and administrative expenses                                                                             | 2,219                                   | 1,817         |
| Total benefits and expenses                                                                                     | 9,482                                   | 8,238         |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b> | <b>704</b>                              | <b>1,009</b>  |
| Income tax expense                                                                                              | 190                                     | 351           |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>                  | <b>514</b>                              | <b>658</b>    |
| Equity in earnings of operating joint ventures, net of taxes                                                    | 105                                     | 10            |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                                                                        | <b>619</b>                              | <b>668</b>    |
| Income from discontinued operations, net of taxes                                                               | 14                                      | 3             |
| <b>NET INCOME</b>                                                                                               | <b>633</b>                              | <b>671</b>    |
| Less: Income (loss) attributable to noncontrolling interests                                                    | 25                                      | (26)          |
| <b>NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC</b>                                                     | <b>\$ 608</b>                           | <b>\$ 697</b> |
| <b>EARNINGS PER SHARE (See Note 8)</b>                                                                          |                                         |               |
| <b>Financial Services Businesses</b>                                                                            |                                         |               |
| <b>Basic:</b>                                                                                                   |                                         |               |
| Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock          | \$ 1.19                                 | \$ 1.16       |
| Income from discontinued operations, net of taxes                                                               | 0.03                                    | 0.00          |

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|                                                                                 |         |         |
|---------------------------------------------------------------------------------|---------|---------|
| Net income attributable to Prudential Financial, Inc. per share of Common Stock | \$ 1.22 | \$ 1.16 |
|---------------------------------------------------------------------------------|---------|---------|

**Diluted:**

|                                                                                                        |         |         |
|--------------------------------------------------------------------------------------------------------|---------|---------|
| Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock | \$ 1.17 | \$ 1.15 |
| Income from discontinued operations, net of taxes                                                      | 0.03    | 0.00    |

|                                                                                 |         |         |
|---------------------------------------------------------------------------------|---------|---------|
| Net income attributable to Prudential Financial, Inc. per share of Common Stock | \$ 1.20 | \$ 1.15 |
|---------------------------------------------------------------------------------|---------|---------|

**Closed Block Business**

**Basic and Diluted:**

|                                                                                                         |         |          |
|---------------------------------------------------------------------------------------------------------|---------|----------|
| Income from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock | \$ 5.00 | \$ 75.50 |
| Income from discontinued operations, net of taxes                                                       | 0.00    | 0.00     |

|                                                                                  |         |          |
|----------------------------------------------------------------------------------|---------|----------|
| Net income attributable to Prudential Financial, Inc. per share of Class B Stock | \$ 5.00 | \$ 75.50 |
|----------------------------------------------------------------------------------|---------|----------|

*See Notes to Unaudited Interim Consolidated Financial Statements*

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## PRUDENTIAL FINANCIAL, INC.

### Unaudited Interim Consolidated Statements of Equity(1)

Three Months Ended March 31, 2011 and 2010 (in millions)

|                                                             | Prudential Financial, Inc. Equity |            |           |             |             |                 |                |           |
|-------------------------------------------------------------|-----------------------------------|------------|-----------|-------------|-------------|-----------------|----------------|-----------|
|                                                             | Common                            | Additional | Retained  | Common      | Accumulated | Total           | Noncontrolling | Total     |
|                                                             | Stock                             | Paid-in    | Earnings  | Stock       | Other       | Prudential      | Interests      | Equity    |
|                                                             |                                   | Capital    |           | Held In     | Income      | Financial, Inc. |                |           |
|                                                             |                                   |            |           | Treasury    | (Loss)      | Equity          |                |           |
| <b>Balance December 31, 2010</b>                            | \$ 6                              | \$ 24,223  | \$ 16,381 | \$ (11,173) | \$ 2,978    | \$ 32,415       | \$ 513         | \$ 32,928 |
| Contributions from noncontrolling interests                 |                                   |            |           |             |             | 0               | 6              | 6         |
| Distributions to noncontrolling interests                   |                                   |            |           |             |             | 0               | 0              | 0         |
| Consolidations/deconsolidations of noncontrolling interests |                                   |            |           |             |             | 0               | 0              | 0         |
| Stock-based compensation programs                           |                                   | (13)       | (11)      | 111         |             | 87              |                | 87        |
| Comprehensive income:                                       |                                   |            |           |             |             |                 |                |           |
| Net income                                                  |                                   |            | 608       |             |             | 608             | 25             | 633       |
| Other comprehensive income (loss), net of tax               |                                   |            |           |             | (414)       | (414)           | 6              | (408)     |
| <b>Total comprehensive income (loss)</b>                    |                                   |            |           |             |             | 194             | 31             | 225       |
| <b>Balance, March 31, 2011</b>                              | \$ 6                              | \$ 24,210  | \$ 16,978 | \$ (11,062) | \$ 2,564    | \$ 32,696       | \$ 550         | \$ 33,246 |

  

|                                                             | Prudential Financial, Inc. Equity |            |           |             |             |                 |                |           |
|-------------------------------------------------------------|-----------------------------------|------------|-----------|-------------|-------------|-----------------|----------------|-----------|
|                                                             | Common                            | Additional | Retained  | Common      | Accumulated | Total           | Noncontrolling | Total     |
|                                                             | Stock                             | Paid-in    | Earnings  | Stock       | Other       | Prudential      | Interests      | Equity    |
|                                                             |                                   | Capital    |           | Held In     | Income      | Financial, Inc. |                |           |
|                                                             |                                   |            |           | Treasury    | (Loss)      | Equity          |                |           |
| <b>Balance, December 31, 2009</b>                           | \$ 6                              | \$ 23,235  | \$ 13,787 | \$ (11,390) | \$ (443)    | \$ 25,195       | \$ 534         | \$ 25,729 |
| Contributions from noncontrolling interests                 |                                   |            |           |             |             |                 | 3              | 3         |
| Distributions to noncontrolling interests                   |                                   |            |           |             |             |                 | (4)            | (4)       |
| Consolidations/deconsolidations of noncontrolling interests |                                   | (2)        |           |             |             | (2)             | (1)            | (3)       |
| Stock-based compensation programs                           |                                   | (47)       | (6)       | 100         |             | 47              |                | 47        |
| Comprehensive income:                                       |                                   |            |           |             |             |                 |                |           |
| Net income                                                  |                                   |            | 697       |             |             | 697             | (26)           | 671       |
| Other comprehensive income (loss), net of tax               |                                   |            |           |             | 1,063       | 1,063           | 0              | 1,063     |
| <b>Total comprehensive income (loss)</b>                    |                                   |            |           |             |             | 1,760           | (26)           | 1,734     |
| <b>Balance, March 31, 2010</b>                              | \$ 6                              | \$ 23,186  | \$ 14,478 | \$ (11,290) | \$ 620      | \$ 27,000       | \$ 506         | \$ 27,506 |

(1) Class B Stock is not presented as the amounts are immaterial.

See Notes to Unaudited Interim Consolidated Financial Statements



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Cash Flows****Three Months Ended March 31, 2011 and 2010 (in millions)**

|                                                                                                        | <b>2011</b>    | <b>2010</b>    |
|--------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                            |                |                |
| Net income                                                                                             | \$ 633         | \$ 671         |
| Adjustments to reconcile net income to net cash provided by operating activities:                      |                |                |
| Realized investment (gains) losses, net                                                                | 50             | (389)          |
| Policy charges and fee income                                                                          | (298)          | (277)          |
| Interest credited to policyholders' account balances                                                   | 823            | 1,235          |
| Depreciation and amortization                                                                          | (19)           | (31)           |
| Gains on trading account assets supporting insurance liabilities, net                                  | 21             | (253)          |
| Change in:                                                                                             |                |                |
| Deferred policy acquisition costs                                                                      | (449)          | (294)          |
| Future policy benefits and other insurance liabilities                                                 | 1,699          | 930            |
| Other trading account assets                                                                           | 60             | (298)          |
| Income taxes                                                                                           | 166            | (1,238)        |
| Other, net                                                                                             | (455)          | (107)          |
| <b>Cash flows from (used in) operating activities</b>                                                  | <b>2,231</b>   | <b>(51)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                            |                |                |
| Proceeds from the sale/maturity/prepayment of:                                                         |                |                |
| Fixed maturities, available for sale                                                                   | 6,902          | 5,598          |
| Fixed maturities, held to maturity                                                                     | 139            | 114            |
| Trading account assets supporting insurance liabilities and other trading account assets               | 4,420          | 14,974         |
| Equity securities, available for sale                                                                  | 424            | 833            |
| Commercial mortgage and other loans                                                                    | 944            | 997            |
| Policy loans                                                                                           | 465            | 418            |
| Other long-term investments                                                                            | 368            | 106            |
| Short-term investments                                                                                 | 3,925          | 4,332          |
| Payments for the purchase/origination of:                                                              |                |                |
| Fixed maturities, available for sale                                                                   | (8,048)        | (9,600)        |
| Fixed maturities, held to maturity                                                                     | (12)           | (57)           |
| Trading account assets supporting insurance liabilities and other trading account assets               | (4,523)        | (15,098)       |
| Equity securities, available for sale                                                                  | (438)          | (750)          |
| Commercial mortgage and other loans                                                                    | (1,260)        | (487)          |
| Policy loans                                                                                           | (405)          | (379)          |
| Other long-term investments                                                                            | (174)          | (117)          |
| Short-term investments                                                                                 | (4,056)        | (4,691)        |
| Acquisition of subsidiaries, net of cash acquired.                                                     | (2,321)        | 0              |
| Other, net                                                                                             | (282)          | 137            |
| <b>Cash flows used in investing activities</b>                                                         | <b>(3,932)</b> | <b>(3,670)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                            |                |                |
| Policyholders' account deposits                                                                        | 5,544          | 5,302          |
| Policyholders' account withdrawals                                                                     | (5,580)        | (5,859)        |
| Net change in securities sold under agreements to repurchase and cash collateral for loaned securities | (6)            | 145            |
| Cash dividends paid on Common Stock                                                                    | (41)           | (34)           |
| Net change in financing arrangements (maturities 90 days or less)                                      | 537            | 108            |
| Common Stock reissued for exercise of stock options                                                    | 47             | 30             |
| Proceeds from the issuance of debt (maturities longer than 90 days)                                    | 144            | 1,407          |
| Repayments of debt (maturities longer than 90 days)                                                    | (334)          | (1,020)        |
| Excess tax benefits from share-based payment arrangements                                              | 6              | 5              |

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|                                                                    |                  |                 |
|--------------------------------------------------------------------|------------------|-----------------|
| Other, net                                                         | (488)            | 201             |
| <b>Cash flows from (used in) financing activities</b>              | <b>(171)</b>     | <b>285</b>      |
| Effect of foreign exchange rate changes on cash balances           | (48)             | (102)           |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                   | <b>(1,920)</b>   | <b>(3,538)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                | <b>12,915</b>    | <b>13,164</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                    | <b>\$ 10,995</b> | <b>\$ 9,626</b> |
| <b>NON-CASH TRANSACTIONS DURING THE PERIOD</b>                     |                  |                 |
| Treasury Stock shares issued for stock-based compensation programs | \$ 56            | \$ 67           |

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

***Basis of Presentation***

The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company's consolidated variable interest entities. The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ( SEC ). Intercompany balances and transactions have been eliminated.

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, except for the adjustment described below under Out of Period Adjustment. 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, 2010.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; value of business acquired and its amortization; amortization of sales inducements; measurement of goodwill and any related impairment; valuation of investments including derivatives and the

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**PRUDENTIAL FINANCIAL, INC.**

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

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

***Reclassifications***

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

***Out of Period Adjustment***

For the three months ended March 31, 2011, the Company recorded an out of period adjustment that decreased Income from continuing operations before income taxes and equity in earnings of operating joint ventures by \$95 million. The adjustment is related to the amortization of unrealized losses associated with U.S. dollar denominated collateralized mortgage-backed securities held by the Gibraltar Life Insurance Company, Ltd. consolidated operations ( Gibraltar Life operations ), that were reclassified from available for sale to held to maturity in December 2008. The adjustment, which had no impact on the carrying value of these securities, resulted from using the contractual maturities of the securities rather than the expected effective duration of the securities as the basis for the amortization of the unrealized losses that existed when the securities were reclassified. The adjustment had no impact on adjusted operating income, the Company's measure of segment performance, and is not material to any previously reported quarterly or annual financial statements. For further information on the presentation of segment results and a definition of adjusted operating income, see Note 11.

**2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**

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

The Company's investments in debt and equity securities include fixed maturities; trading account assets; equity securities; and short-term investments. The accounting policies related to these, as well as commercial mortgage and other loans are as follows:

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as available for sale are carried at fair value. See Note 13 for additional information regarding the determination of fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as held to maturity. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium

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and accretion of discount, is included in Net investment income under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions can significantly impact income recognition and the amount of other-than-temporary impairments recognized in earnings and other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For asset-backed and mortgage-backed securities rated below AA, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Unrealized gains and losses on fixed maturities classified as available for sale, net of tax, and the effect on deferred policy

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**PRUDENTIAL FINANCIAL, INC.**

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

acquisition costs, value of business acquired, deferred sales inducements, future policy benefits and policyholders' dividends that would result from the realization of unrealized gains and losses, are included in Accumulated other comprehensive income (loss).

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

Other trading account assets, at fair value consist primarily of investments and certain derivatives, including those used by the Company in its capacity as a broker-dealer and derivative hedging positions, used in a non-broker-dealer capacity primarily to hedge the risks related to certain products. These instruments are carried at fair value. Realized and unrealized gains and losses on these investments and on derivatives used by the Company in its capacity as a broker-dealer are reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income.

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

Commercial mortgage and other loans consist of commercial mortgage loans, agricultural loans, loans backed by residential properties, as well as certain other collateralized and uncollateralized loans. Commercial mortgage loans are broken down by class which is based on property type (industrial properties, retail, office, multi-family/apartment, hospitality, and other). Loans backed by residential properties primarily include recourse loans held by the Company's international insurance businesses. Other collateralized loans primarily include senior loans made by the Company's international insurance businesses and loans made to the Company's real estate franchisees. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company's international insurance businesses.

Commercial mortgage and other loans originated and held for investment are generally carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses and net of an allowance for losses. Commercial mortgage loans originated within the Company's commercial mortgage operations include loans held for sale which are reported at the lower of cost or fair value; loans held for investment which are reported at amortized cost net of unamortized deferred loan origination fees and expenses and net of an allowance for losses; and loans reported at fair value under the fair value option. Commercial mortgage and other loans acquired, including those related to the acquisition of a business, are recorded at fair value when purchased, reflecting any premiums or discounts to unpaid principal balances.

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Interest income, as well as prepayment fees and the amortization of the related premiums or discounts, related to commercial mortgage and other loans, are included in Net investment income.

Impaired loans include those loans for which it is probable that amounts due according to the contractual terms of the loan agreement will not all be collected. The Company defines past due as principal or interest not

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**PRUDENTIAL FINANCIAL, INC.**

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

collected at least 30 days past the scheduled contractual due date. Interest received on loans that are past due, including impaired and non-impaired loans as well as loans that were previously modified in a troubled debt restructuring, is either applied against the principal or reported as net investment income based on the Company's assessment as to the collectability of the principal. See Note 4 for additional information about the Company's past due loans.

The Company discontinues accruing interest on loans after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability. When the Company discontinues accruing interest on a loan, any accrued but uncollectible interest on the loan and other loans backed by the same collateral, if any, is charged to interest income in the same period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where the payment of interest has been interrupted for a substantial period, or the loan has been modified, a regular payment performance has been established.

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

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments. The values utilized in calculating these ratios are developed as part of the Company's periodic review of the commercial mortgage loan and agricultural loan portfolio, which includes an internal appraisal of the underlying collateral value. The Company's periodic review also includes a quality re-rating process, whereby the internal quality rating originally assigned at underwriting is updated based on current loan, property and market information using a proprietary quality rating system. The loan-to-value ratio is the most significant of several inputs used to establish the internal credit rating of a loan which in turn drives the allowance for losses. Other key factors considered in determining the internal credit rating include debt service coverage ratios, amortization, loan term, estimated market value growth rate and volatility for the property type and region. See Note 4 for additional information related to the loan-to-value ratios and debt service coverage ratios related to the Company's commercial mortgage and agricultural loan portfolios.

Loans backed by residential properties, other collateralized loans, and uncollateralized loans are also reviewed periodically. Each loan is assigned an internal or external credit rating. Internal credit ratings take into consideration various factors including financial ratios and qualitative assessments based on non-financial



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### **PRUDENTIAL FINANCIAL, INC.**

#### **Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

information. In cases where there are personal or third party guarantors, the credit quality of the guarantor is also reviewed. These factors are used in developing the allowance for losses. Based on the diversity of the loans in these categories and their immateriality, the Company has not disclosed the credit quality indicators related to these loans in Note 4.

For those loans not reported at fair value, the allowance for losses includes a loan specific reserve for each impaired loan that has a specifically identified loss and a portfolio reserve for probable incurred but not specifically identified losses. For impaired commercial mortgage and other loans the allowances for losses are determined based on the present value of expected future cash flows discounted at the loan's effective interest rate, or based upon the fair value of the collateral if the loan is collateral dependent. The portfolio reserves for probable incurred but not specifically identified losses in the commercial mortgage and agricultural loan portfolio segments considers the current credit composition of the portfolio based on an internal quality rating, (as described above). The portfolio reserves are determined using past loan experience, including historical credit migration, default probability and loss severity factors by property type. Historical credit migration, default and loss severity factors are updated each quarter based on the Company's actual loan experience, and are considered together with other relevant qualitative factors in making the final portfolio reserve calculations.

The allowance for losses on commercial mortgage and other loans can increase or decrease from period to period based on the factors noted above. Realized investment gains (losses), net includes changes in the allowance for losses and changes in value for loans accounted for under the fair value option. Realized investment gains (losses), net also includes gains and losses on sales, certain restructurings, and foreclosures.

When a commercial mortgage or other loan is deemed to be uncollectible, any specific valuation allowance associated with the loan is reversed and a direct write down to the carrying amount of the loan is made. The carrying amount of the loan is not adjusted for subsequent recoveries in value.

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

Realized investment gains (losses) are computed using the specific identification method with the exception of some of the Company's International Insurance businesses portfolios, where the average cost method is used. Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for net other-than-temporary impairments recognized in earnings. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, allowance for losses on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment, except those derivatives used in the Company's capacity as a broker or dealer.

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The Company's available for sale and held to maturity securities with unrealized losses are reviewed quarterly to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, the Company considers several factors including, but not limited to the following: (1) the

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**PRUDENTIAL FINANCIAL, INC.**

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

extent and the duration of the decline; (2) the reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. With regard to available for sale equity securities, the Company also considers the ability and intent to hold the investment for a period of time to allow for a recovery of value. When it is determined that a decline in value of an equity security is other-than-temporary, the carrying value of the equity security is reduced to its fair value, with a corresponding charge to earnings.

Under the authoritative guidance for the recognition and presentation of other-than-temporary impairments for debt securities, an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. For all debt securities in unrealized loss positions that do not meet either of these two criteria, the guidance requires that the Company analyze its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company may use the estimated fair value of collateral as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. In addition to the above mentioned circumstances, the Company also recognizes an other-than-temporary impairment in earnings when a foreign currency denominated security in an unrealized loss position approaches maturity.

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

For debt securities, the split between the amount of an other-than-temporary impairment recognized in other comprehensive income and the net amount recognized in earnings is driven principally by assumptions regarding the amount and timing of projected cash flows. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including prepayment assumptions, and are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates include assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security's position within the capital structure of the issuer.



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

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

***Derivative Financial Instruments***

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

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

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

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

The Company designates derivatives as either (1) a hedge of the fair value of a recognized asset or liability or unrecognized firm commitment (fair value hedge); (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or

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liability ( cash flow hedge); (3) a foreign-currency fair value or cash flow hedge ( foreign currency hedge); (4) a hedge of a net investment in a foreign operation; or (5) a derivative that does not qualify for hedge accounting.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the

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**PRUDENTIAL FINANCIAL, INC.**

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

hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge. Under such circumstances, the ineffective portion is recorded in Realized investment gains (losses), net.

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

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

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

When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded either in current period earnings if the hedge transaction is a fair value hedge (e.g., a hedge of a recognized foreign currency asset or liability) or in Accumulated other comprehensive income (loss) if the hedge transaction is a cash flow hedge (e.g., a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss).

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

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

transaction are recognized immediately in Realized investment gains (losses), net.

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**PRUDENTIAL FINANCIAL, INC.**

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

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

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

***Adoption of New Accounting Pronouncements***

In December 2010, the Financial Accounting Standards Board ( FASB ) issued authoritative guidance that modifies the first step of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform the second step of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing authoritative guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This new guidance is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company's adoption of this guidance effective January 1, 2011 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In December 2010, the FASB issued authoritative guidance that specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance expands the supplemental pro forma disclosures required for business combinations to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings. This new guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted this guidance prospectively for business combinations for which the acquisition date is on or after January 1, 2011. The disclosures included in Note 3 reflect this guidance.

In July 2010, the FASB issued updated guidance that requires enhanced disclosures related to the allowance for credit losses and the credit quality of a company's financing receivable portfolio. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The Company adopted this guidance effective December 31, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning after



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**PRUDENTIAL FINANCIAL, INC.**

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

December 15, 2010. The required disclosures are included above and in Note 4. In January 2011, the FASB deferred the disclosures required by this guidance related to troubled debt restructurings. The disclosures will be effective for the first interim or annual reporting period beginning on or after June 15, 2011, concurrent with the effective date of guidance for determining what constitutes a troubled debt restructuring.

In April 2010, the FASB issued authoritative guidance clarifying that an insurance entity should not consider any separate account interests in an investment held for the benefit of policyholders to be the insurer's interests, and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for a related party policyholder, whereby consolidation of such interests must be considered under applicable variable interest guidance. This guidance is effective for interim and annual reporting periods beginning after December 15, 2010 and retrospectively to all prior periods upon the date of adoption, with early adoption permitted. The Company's adoption of this guidance effective January 1, 2011 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In January 2010, the FASB issued updated guidance that requires new fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the roll forward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about level of disaggregation and valuation techniques and inputs. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of Level 3 activity, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the guidance effective for interim and annual reporting periods beginning after December 15, 2009 on January 1, 2010. The Company adopted the guidance effective for interim and annual reporting periods beginning after December 15, 2010 on January 1, 2011. The required disclosures are provided in Note 13.

***Future Adoption of New Accounting Pronouncements***

In April 2011, the FASB issued updated guidance clarifying which restructurings constitute troubled debt restructurings. It is intended to assist creditors in their evaluation of whether conditions exist that constitute a troubled debt restructuring. This new guidance is effective for the first interim or annual reporting period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual reporting period of adoption. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In April 2011, the FASB issued updated guidance regarding the assessment of effective control for repurchase agreements. This new guidance is effective for the first interim or annual reporting period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

**3. ACQUISITIONS AND DISPOSITIONS**

***Acquisition of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities from AIG***

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc. ( AIG ) of AIG Star Life Insurance Co., Ltd. ( Star ), AIG Edison Life Insurance Company ( Edison ), AIG Financial Assurance Japan K.K., and AIG Edison Service Co, Ltd. (collectively, the Star and Edison

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Businesses ) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was \$4,709 million, comprised of \$4,213 million in cash and \$496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. The purchase price is subject to post-closing adjustments and may be adjusted in future periods if it is determined that the combined solvency capital of the Star and Edison Businesses as of the acquisition date is calculated to be more or less than the required amount as set forth in the stock purchase agreement. The acquisition of these businesses included the purchase by the Company of all of the shares of these entities, which became indirect wholly-owned subsidiaries of the Company. All acquired entities are Japanese corporations and their businesses are in Japan.

The Star and Edison Businesses primarily distribute individual life insurance, fixed annuities, and certain health products with fixed benefits through captive agents, independent agents, and banks. The addition of these operations to the Company's existing businesses will increase its scale in the Japanese insurance market and provide complementary distribution opportunities.

Prudential Financial intends to make a Section 338(g) election under the Internal Revenue Code with respect to the acquisition resulting in the acquired entities being treated for U.S. tax purposes as newly-incorporated companies. Under such election, the U.S. tax basis of the assets acquired and liabilities assumed of the Star and Edison Businesses were adjusted as of February 1, 2011 to reflect the consequences of the Section 338(g) election.

Although the acquisition of the Star and Edison Businesses included the acquisition of multiple entities, the Company views this as a single acquisition and reports it as such in the following disclosures.

*Net Assets Acquired*

The following table presents an allocation of the purchase price to assets acquired and liabilities assumed at February 1, 2011 (the Acquisition Date ):

|                                        | (in millions) |
|----------------------------------------|---------------|
| Total invested assets at fair value(1) | \$ 43,103     |
| Cash and cash equivalents              | 1,813         |
| Accrued investment income              | 348           |
| Value of business acquired ( VOBA )    | 3,671         |
| Goodwill                               | 205           |
| Other assets(1)(2)                     | 873           |
| <b>Total assets acquired</b>           | <b>50,013</b> |
| Future policy benefits                 | 18,809        |

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|                                                |              |
|------------------------------------------------|--------------|
| Policyholders' account balances <sup>(3)</sup> | 26,124       |
| Long-term debt                                 | 496          |
| Other liabilities                              | 371          |
| <br>Total liabilities assumed                  | <br>45,800   |
| <br>Net assets acquired                        | <br>\$ 4,213 |

- (1) Total invested assets, at fair value, includes \$55 million of related party assets. Other assets includes \$86 million of related party assets.
- (2) Includes \$691 million of deferred taxes representing the difference between U.S. GAAP and local tax basis. In accordance with U.S. GAAP, the reversal of deferred tax assets recorded on the statements of financial position as of the acquisition date for Star and Edison are estimated to result in additional tax expense in the future of approximately \$450 million.
- (3) Includes investment contracts reported at fair value, which exceeded the account value by \$646 million.

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Value of business acquired ( VOBA ), which is established in accordance with purchase accounting guidance, is an intangible asset associated with the acquired in force insurance contracts representing the difference between the fair value and carrying value of the liabilities, determined as of the acquisition date. The fair value of the liabilities, and hence VOBA, reflects the cost of the capital attributable to the acquired insurance contracts. VOBA will be amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits will include both actual experience as it arises and estimates of gross profits for future periods. The Company will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. VOBA is reported as a component of Other assets and the amortization of VOBA is reported in General and administrative expenses. The proportion of the VOBA balance attributable to each of the product groups associated with this acquisition are as follows: 48% related to accident and health insurance products, 47% related to individual life insurance, and 5% related to fixed annuities.

The following table provides estimated future amortization of VOBA, net of interest, relating to the Star and Edison Businesses for the periods indicated.

|                     | (in millions) |
|---------------------|---------------|
| 2011                | \$ 335        |
| 2012                | \$ 351        |
| 2013                | \$ 308        |
| 2014                | \$ 274        |
| 2015                | \$ 234        |
| 2016 and thereafter | \$ 2,169      |

*Goodwill*

As a result of the acquisition of the Star and Edison Businesses, the Company recognized an asset for goodwill representing the excess of the acquisition cost over the net fair value of the assets acquired and liabilities assumed. Goodwill resulting from the acquisition of the Star and Edison Businesses amounted to \$205 million. As a result of the Section 338(g) election and the assumed repatriation of U.S. GAAP earnings, the Company currently estimates 100% of this amount to be U.S. tax deductible in the future. In accordance with GAAP, goodwill will not be amortized but rather will be tested at least annually for impairment. The test will be performed at the reporting unit level which for this acquisition is the International Insurance segment's Gibraltar Life and Other operations.

*Results of the Star and Edison Businesses since the Acquisition Date*

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The Star and Edison Businesses use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. Due to this one month reporting lag, the Company's Unaudited Interim Consolidated Financial Statements as of March 31, 2011 include one month of results for the Star and Edison Businesses. The following table presents selected financial information reflecting results for the Star and Edison Businesses from February 1, 2011 through February 28, 2011 that are included in the Company's Unaudited Interim Consolidated Statements of Operations for the three months ended March 31, 2011.

|                                   | <b>Results for the Star and Edison Businesses<br/>from February 1, 2011 through<br/>February 28, 2011<br/>(in millions)</b> |      |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------|------|
| Total revenues                    | \$                                                                                                                          | 304  |
| Income from continuing operations | \$                                                                                                                          | (17) |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The results of the Star and Edison Businesses in the table above do not reflect the impact of transaction and integration costs on the Company's results. Transaction costs represent costs directly related to effecting the acquisition. Integration costs are costs associated with the integration of the core operations of the Star and Edison Businesses with the Gibraltar Life operations. Both transaction and integration costs are expensed as incurred and are included in General and administrative expenses. For the three months ended March 31, 2011, the Company incurred \$47 million of transaction and integration costs reflected in the International Insurance segment, which primarily represent fees paid to bankers and advisers in connection with the acquisition, and \$8 million of costs related to the acquisition reflected in Corporate and Other operations.

*Supplemental Unaudited Pro Forma Information*

The following supplemental information presents selected unaudited pro forma information for the Company assuming the acquisition had occurred as of December 1, 2009. This pro forma information does not purport to represent what the Company's actual results of operations would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods. The pro forma information does not reflect the impact of future events that may occur, including but not limited to, expense efficiencies arising from the acquisition and also does not give effect to certain one-time charges that the Company expects to incur, such as restructuring and integration costs.

|                                                                                                         | <b>Three Months Ended<br/>March 31,<br/>2011      2010<br/>(in millions)</b> |          |
|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------|
| Total revenues                                                                                          | \$ 11,506                                                                    | \$ 9,869 |
| Income from continuing operations                                                                       | 784                                                                          | 384      |
| Net income attributable to Prudential Financial, Inc.                                                   | 773                                                                          | 413      |
| <b>Earnings per share Financial Services Businesses</b>                                                 |                                                                              |          |
| <b>Basic:</b>                                                                                           |                                                                              |          |
| Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock  | \$ 1.53                                                                      | \$ 0.52  |
| Net income attributable to Prudential Financial, Inc. per share of Common Stock                         | 1.56                                                                         | 0.53     |
| <b>Diluted:</b>                                                                                         |                                                                              |          |
| Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock  | \$ 1.51                                                                      | \$ 0.52  |
| Net income attributable to Prudential Financial, Inc. per share of Common Stock                         | 1.54                                                                         | 0.53     |
| <b>Earnings per share Closed Block Business</b>                                                         |                                                                              |          |
| <b>Basic and Diluted:</b>                                                                               |                                                                              |          |
| Income from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock | \$ 5.00                                                                      | \$ 75.50 |
| Net income attributable to Prudential Financial, Inc. per share of Class B Stock                        | 5.00                                                                         | 75.50    |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Discontinued Operations***

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

|                                                         | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------------------------|-----------------------------------------|-------------|
|                                                         | <b>2011</b>                             | <b>2010</b> |
|                                                         | <b>(in millions)</b>                    |             |
| Global commodities business                             | \$ 15                                   | \$ 7        |
| Real estate investments sold or held for sale           | 14                                      | 2           |
| Korean asset management operations                      | 0                                       | 1           |
| Other                                                   | 1                                       | (1)         |
| Income from discontinued operations before income taxes | 30                                      | 9           |
| Income tax expense                                      | 16                                      | 6           |
| Income from discontinued operations, net of taxes       | \$ 14                                   | \$ 3        |

On April 6, 2011, the Company entered into a stock and asset purchase agreement with Jefferies Group, Inc. ( Jefferies ), pursuant to which the Company agrees to sell to Jefferies all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its global commodities business (the Global Commodities Business) and certain assets that are primarily used in connection with the Global Commodities Business. Subsidiaries included in the sale are Prudential Bache Commodities, LLC, Prudential Bache Securities, LLC, Bache Commodities Limited, and Bache Commodities (Hong Kong) Ltd. The purchase price will be approximately equal to the book value of the Global Commodities Business as of the closing date determined in accordance with U.S. GAAP, which was approximately \$430 million as of December 31, 2010. The transaction is expected to close in June 2011, following the receipt of regulatory approvals and the satisfaction of other customary conditions to closing. Due to the execution of this agreement, the results of the Global Commodities Business are now reflected in discontinued operations.

In the first quarter of 2010, the Company signed a definitive agreement to sell Prudential Investment & Securities Co. Ltd. and Prudential Asset Management Co. Ltd., which together comprise the Company's Korean asset management operations. This transaction closed in the second quarter of 2010. Also included in the table above are amounts related to currency hedging activities related to these operations.

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

Charges recorded in connection with the disposals of businesses include estimates that are subject to subsequent adjustment.

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The Company's Unaudited Interim Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses as follows:

|                   | March 31,<br>2011 | December 31,<br>2010 |
|-------------------|-------------------|----------------------|
|                   | (in millions)     |                      |
| Total assets      | \$ 6,290          | \$ 7,068             |
| Total liabilities | \$ 5,846          | \$ 6,646             |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****4. INVESTMENTS*****Fixed Maturities and Equity Securities***

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

|                                                                                      | March 31, 2011    |                              |                                                |                   |                                                       |
|--------------------------------------------------------------------------------------|-------------------|------------------------------|------------------------------------------------|-------------------|-------------------------------------------------------|
|                                                                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses<br>(in millions) | Fair<br>Value     | Other-than-<br>temporary<br>Impairments<br>in AOCI(4) |
| <b>Fixed maturities, available for sale</b>                                          |                   |                              |                                                |                   |                                                       |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 12,016         | \$ 545                       | \$ 457                                         | \$ 12,104         | \$ 0                                                  |
| Obligations of U.S. states and their political subdivisions                          | 2,340             | 33                           | 78                                             | 2,295             | 0                                                     |
| Foreign government bonds                                                             | 61,327            | 2,370                        | 180                                            | 63,517            | 0                                                     |
| Corporate securities                                                                 | 114,801           | 6,234                        | 2,090                                          | 118,945           | (35)                                                  |
| Asset-backed securities(1)                                                           | 13,262            | 221                          | 1,478                                          | 12,005            | (1,260)                                               |
| Commercial mortgage-backed securities                                                | 12,847            | 658                          | 60                                             | 13,445            | 3                                                     |
| Residential mortgage-backed securities(2)                                            | 9,142             | 440                          | 76                                             | 9,506             | (12)                                                  |
| <b>Total fixed maturities, available for sale(3)</b>                                 | <b>\$ 225,735</b> | <b>\$ 10,501</b>             | <b>\$ 4,419</b>                                | <b>\$ 231,817</b> | <b>\$ (1,304)</b>                                     |
| <b>Equity securities, available for sale(3)</b>                                      | <b>\$ 8,557</b>   | <b>\$ 1,666</b>              | <b>\$ 113</b>                                  | <b>\$ 10,110</b>  |                                                       |

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

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

(3) Includes fixed maturities of \$35,682 million at amortized cost (\$35,737 million, fair value) and equity securities of \$1,917 million at amortized cost (\$1,935 million, fair value) related to the Star and Edison Businesses.

(4) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings. Amount excludes \$581 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

|  | March 31, 2011    |                              |                               |               |                                                          |
|--|-------------------|------------------------------|-------------------------------|---------------|----------------------------------------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Other-than-<br>temporary<br>Impairments<br>in<br>AOCI(4) |

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|                                             | (in millions) |        |       |          |      |
|---------------------------------------------|---------------|--------|-------|----------|------|
| Fixed maturities, held to maturity          |               |        |       |          |      |
| Foreign government bonds                    | \$ 1,172      | \$ 48  | \$ 0  | \$ 1,220 | \$ 0 |
| Corporate securities(1)                     | 1,056         | 11     | 72    | 995      | 0    |
| Asset-backed securities(2)                  | 1,185         | 41     | 1     | 1,225    | 0    |
| Commercial mortgage-backed securities       | 466           | 99     | 0     | 565      | 0    |
| Residential mortgage-backed securities(3)   | 1,223         | 56     | 1     | 1,278    | 0    |
| Total fixed maturities, held to maturity(1) | \$ 5,102      | \$ 255 | \$ 74 | \$ 5,283 | \$ 0 |

- (1) Excludes notes with amortized cost of \$250 million (fair value, \$250 million) which have been offset with the associated payables under a netting agreement.
- (2) Includes credit tranching securities collateralized by auto loans, credit cards, education loans, and other asset types.
- (3) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
- (4) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                         | December 31, 2010 |                              |                                                |               | Other-than-temporary<br>Impairments<br>in AOCI(3) |
|-----------------------------------------------------------------------------------------|-------------------|------------------------------|------------------------------------------------|---------------|---------------------------------------------------|
|                                                                                         | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses<br>(in millions) | Fair<br>Value |                                                   |
| Fixed maturities, available for sale                                                    |                   |                              |                                                |               |                                                   |
| U.S. Treasury securities and obligations of U.S. government<br>authorities and agencies | \$ 10,930         | \$ 663                       | \$ 295                                         | \$ 11,298     | \$ 0                                              |
| Obligations of U.S. states and their political subdivisions                             | 2,254             | 43                           | 66                                             | 2,231         | 0                                                 |
| Foreign government bonds                                                                | 47,414            | 2,920                        | 95                                             | 50,239        | 0                                                 |
| Corporate securities                                                                    | 93,703            | 6,503                        | 1,989                                          | 98,217        | (30)                                              |
| Asset-backed securities(1)                                                              | 12,459            | 214                          | 1,682                                          | 10,991        | (1,413)                                           |
| Commercial mortgage-backed securities                                                   | 11,443            | 663                          | 69                                             | 12,037        | 1                                                 |
| Residential mortgage-backed securities(2)                                               | 9,551             | 491                          | 72                                             | 9,970         | (13)                                              |
| Total fixed maturities, available for sale                                              | \$ 187,754        | \$ 11,497                    | \$ 4,268                                       | \$ 194,983    | \$ (1,455)                                        |
| Equity securities, available for sale                                                   | \$ 6,469          | \$ 1,393                     | \$ 121                                         | \$ 7,741      |                                                   |

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

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

(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings. Amount excludes \$606 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

|                                           | December 31, 2010 |                              |                               |               | Other-than-temporary<br>Impairments<br>in<br>AOCI(3) |
|-------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|------------------------------------------------------|
|                                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |                                                      |
|                                           | (in millions)     |                              |                               |               |                                                      |
| Fixed maturities, held to maturity        |                   |                              |                               |               |                                                      |
| Foreign government bonds                  | \$ 1,199          | \$ 84                        | \$ 0                          | \$ 1,283      | \$ 0                                                 |
| Corporate securities                      | 1,059             | 12                           | 67                            | 1,004         | 0                                                    |
| Asset-backed securities(1)                | 1,179             | 48                           | 1                             | 1,226         | 0                                                    |
| Commercial mortgage-backed securities     | 475               | 106                          | 0                             | 581           | 0                                                    |
| Residential mortgage-backed securities(2) | 1,314             | 69                           | 0                             | 1,383         | 0                                                    |
| Total fixed maturities, held to maturity  | \$ 5,226          | \$ 319                       | \$ 68                         | \$ 5,477      | \$ 0                                                 |

(1) Includes credit tranching securities collateralized by auto loans, credit cards, education loans, and other asset types.

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

(3)

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Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings.

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The amortized cost and fair value of fixed maturities by contractual maturities at March 31, 2011, are as follows:

|                                        | Available for Sale<br>Amortized<br>Cost | Fair<br>Value<br>(in millions) | Held to Maturity<br>Amortized<br>Cost | Fair<br>Value |
|----------------------------------------|-----------------------------------------|--------------------------------|---------------------------------------|---------------|
| Due in one year or less                | \$ 10,787                               | \$ 11,040                      | \$ 0                                  | \$ 0          |
| Due after one year through five years  | 46,543                                  | 48,045                         | 54                                    | 55            |
| Due after five years through ten years | 50,892                                  | 52,595                         | 197                                   | 203           |
| Due after ten years(1)                 | 82,262                                  | 85,181                         | 1,977                                 | 1,957         |
| Asset-backed securities                | 13,262                                  | 12,005                         | 1,185                                 | 1,225         |
| Commercial mortgage-backed securities  | 12,847                                  | 13,445                         | 466                                   | 565           |
| Residential mortgage-backed securities | 9,142                                   | 9,506                          | 1,223                                 | 1,278         |
| Total(1)                               | \$ 225,735                              | \$ 231,817                     | \$ 5,102                              | \$ 5,283      |

(1) Excludes notes with amortized cost of \$250 million (fair value, \$250 million) which have been offset with the associated payables under a netting agreement.

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

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

|                                                                | Three Months Ended March 31,<br>2011 | 2010     |
|----------------------------------------------------------------|--------------------------------------|----------|
|                                                                | (in millions)                        |          |
| <b>Fixed maturities, available for sale</b>                    |                                      |          |
| Proceeds from sales                                            | \$ 3,141                             | \$ 2,248 |
| Proceeds from maturities/repayments                            | 3,931                                | 3,457    |
| Gross investment gains from sales, prepayments, and maturities | 197                                  | 89       |
| Gross investment losses from sales and maturities              | (68)                                 | (58)     |
| <b>Fixed maturities, held to maturity</b>                      |                                      |          |
| Gross investment gains from prepayments                        | \$ 0                                 | \$ 0     |
| Proceeds from maturities/repayments                            | 139                                  | 114      |
| <b>Equity securities, available for sale</b>                   |                                      |          |
| Proceeds from sales                                            | \$ 480                               | \$ 892   |
| Gross investment gains from sales                              | 97                                   | 134      |

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|                                                                                                         |          |          |
|---------------------------------------------------------------------------------------------------------|----------|----------|
| Gross investment losses from sales                                                                      | (13)     | (24)     |
| <b>Fixed maturity and equity security impairments</b>                                                   |          |          |
| Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1) | \$ (104) | \$ (254) |
| Writedowns for impairments on equity securities                                                         | (22)     | (69)     |

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

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

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

|                                                                                                                              | <b>Three Months Ended March 31,</b> |             |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------|
|                                                                                                                              | <b>2011</b>                         | <b>2010</b> |
|                                                                                                                              | <b>(in millions)</b>                |             |
| Balance, beginning of period                                                                                                 | \$ 1,493                            | \$ 1,752    |
| Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period | (168)                               | (197)       |
| Credit loss impairments previously recognized on securities impaired to fair value during the period(1)                      | (1)                                 | (7)         |
| Credit loss impairment recognized in the current period on securities not previously impaired                                | 17                                  | 114         |
| Additional credit loss impairments recognized in the current period on securities previously impaired                        | 46                                  | 81          |
| Increases due to the passage of time on previously recorded credit losses                                                    | 14                                  | 29          |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected         | (9)                                 | (19)        |
| Balance, end of period                                                                                                       | \$ 1,392                            | \$ 1,753    |

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

**Trading Account Assets Supporting Insurance Liabilities**

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

| <b>March 31, 2011</b> |                   | <b>December 31, 2010</b> |                   |
|-----------------------|-------------------|--------------------------|-------------------|
| <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Amortized Cost</b>    | <b>Fair Value</b> |

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|                                                                         | (in millions) |           |           |           |
|-------------------------------------------------------------------------|---------------|-----------|-----------|-----------|
| Short-term investments and cash equivalents                             | \$ 539        | \$ 539    | \$ 697    | \$ 697    |
| Fixed maturities:                                                       |               |           |           |           |
| Corporate securities                                                    | 9,799         | 10,296    | 9,581     | 10,118    |
| Commercial mortgage-backed securities                                   | 2,383         | 2,427     | 2,352     | 2,407     |
| Residential mortgage-backed securities(1)                               | 1,446         | 1,458     | 1,350     | 1,363     |
| Asset-backed securities(2)                                              | 1,325         | 1,216     | 1,158     | 1,030     |
| Foreign government bonds                                                | 620           | 625       | 567       | 569       |
| U.S. government authorities and agencies and obligations of U.S. states | 522           | 503       | 467       | 448       |
| Total fixed maturities                                                  | 16,095        | 16,525    | 15,475    | 15,935    |
| Equity securities                                                       | 1,281         | 1,250     | 1,156     | 1,139     |
| Total trading account assets supporting insurance liabilities           | \$ 17,915     | \$ 18,314 | \$ 17,328 | \$ 17,771 |

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

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income was \$(44) million and \$240 million during the three months ended March 31, 2011 and 2010, respectively.

***Other Trading Account Assets***

The following table sets forth the composition of the Other trading account assets as of the dates indicated:

|                                                                         | <b>March 31, 2011</b>     |                       | <b>December 31, 2010</b>  |                       |
|-------------------------------------------------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
|                                                                         | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|                                                                         | <b>(in millions)</b>      |                       |                           |                       |
| Short-term investments and cash equivalents                             | \$ 4                      | \$ 4                  | \$ 3                      | \$ 3                  |
| Fixed maturities:                                                       |                           |                       |                           |                       |
| Asset-backed securities                                                 | 644                       | 609                   | 706                       | 661                   |
| Residential mortgage-backed securities                                  | 282                       | 182                   | 301                       | 181                   |
| Corporate securities                                                    | 300                       | 313                   | 319                       | 318                   |
| Commercial mortgage-backed securities                                   | 134                       | 103                   | 144                       | 103                   |
| U.S. government authorities and agencies and obligations of U.S. states | 476                       | 478                   | 212                       | 214                   |
| Foreign government bonds                                                | 40                        | 40                    | 25                        | 25                    |
| Total fixed maturities                                                  | 1,876                     | 1,725                 | 1,707                     | 1,502                 |
| Other                                                                   | 16                        | 21                    | 16                        | 20                    |
| Equity securities                                                       | 423                       | 432                   | 548                       | 561                   |
| Subtotal                                                                | 2,319                     | 2,182                 | 2,274                     | 2,086                 |
| Derivative instruments                                                  |                           | 1,576                 |                           | 2,139                 |
| Total other trading account assets                                      | \$ 2,319                  | \$ 3,758              | \$ 2,274                  | \$ 4,225              |

The net change in unrealized gains (losses) from other trading account assets, excluding derivatives instruments, still held at period end, recorded within Asset management fees and other income were \$51 million and \$90 million during the three months ended March 31, 2011 and 2010, respectively.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Concentrations of Financial Instruments***

The Company monitors its concentrations of financial instruments on an on-going basis, and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer.

As of March 31, 2011 and December 31, 2010, the Company was not exposed to any concentrations of credit risk of any single issuer greater than 10% of the Company's stockholders' equity, other than securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

|                                                                      | March 31, 2011    |               | December 31, 2010 |               |
|----------------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                      | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|                                                                      | (in millions)     |               |                   |               |
| Investments in Japanese government and government agency securities: |                   |               |                   |               |
| Fixed maturities, available for sale                                 | \$ 50,611         | \$ 52,024     | \$ 38,647         | \$ 40,752     |
| Fixed maturities, held to maturity                                   | 1,171             | 1,220         | 1,199             | 1,283         |
| Trading account assets supporting insurance liabilities              | 449               | 452           | 418               | 424           |
| Other trading account assets                                         | 36                | 36            | 23                | 24            |
| Short-term investments                                               | 184               | 184           | 0                 | 0             |
| Cash equivalents                                                     | 0                 | 0             | 0                 | 0             |
| Total                                                                | \$ 52,451         | \$ 53,916     | \$ 40,287         | \$ 42,483     |

|                                                                          | March 31, 2011    |               | December 31, 2010 |               |
|--------------------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                          | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|                                                                          | (in millions)     |               |                   |               |
| Investments in South Korean government and government agency securities: |                   |               |                   |               |
| Fixed maturities, available for sale                                     | \$ 4,272          | \$ 4,574      | \$ 3,963          | \$ 4,238      |
| Fixed maturities, held to maturity                                       | 0                 | 0             | 0                 | 0             |
| Trading account assets supporting insurance liabilities                  | 17                | 18            | 17                | 18            |
| Other trading account assets                                             | 1                 | 1             | 1                 | 2             |
| Short-term investments                                                   | 0                 | 0             | 0                 | 0             |
| Cash equivalents                                                         | 0                 | 0             | 0                 | 0             |
| Total                                                                    | \$ 4,290          | \$ 4,593      | \$ 3,981          | \$ 4,258      |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Commercial Mortgage and Other Loans***

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

|                                                                       | <b>March 31, 2011</b> |              | <b>December 31, 2010</b> |              |
|-----------------------------------------------------------------------|-----------------------|--------------|--------------------------|--------------|
|                                                                       | <b>Amount</b>         | <b>% of</b>  | <b>Amount</b>            | <b>% of</b>  |
|                                                                       | <b>(in millions)</b>  | <b>Total</b> | <b>(in millions)</b>     | <b>Total</b> |
| <b>Commercial and agricultural mortgage loans by property type:</b>   |                       |              |                          |              |
| Office buildings                                                      | \$ 5,950              | 19.7%        | \$ 5,803                 | 19.5%        |
| Retail                                                                | 6,467                 | 21.5         | 6,388                    | 21.4         |
| Apartments/Multi-Family                                               | 4,963                 | 16.5         | 5,140                    | 17.2         |
| Industrial buildings                                                  | 6,620                 | 22.0         | 6,576                    | 22.1         |
| Hospitality                                                           | 1,573                 | 5.2          | 1,584                    | 5.3          |
| Other                                                                 | 2,491                 | 8.3          | 2,440                    | 8.2          |
| Total commercial mortgage loans                                       | 28,064                | 93.2         | 27,931                   | 93.7         |
| Agricultural property loans                                           | 2,062                 | 6.8          | 1,893                    | 6.3          |
| Total commercial and agricultural mortgage loans by property type     | 30,126                | 100.0%       | 29,824                   | 100.0%       |
| Valuation allowance                                                   | (491)                 |              | (505)                    |              |
| Total net commercial and agricultural mortgage loans by property type | 29,635                |              | 29,319                   |              |
| <b>Other loans</b>                                                    |                       |              |                          |              |
| Uncollateralized loans                                                | 2,083                 |              | 1,468                    |              |
| Residential property loans                                            | 1,071                 |              | 891                      |              |
| Other collateralized loans                                            | 237                   |              | 223                      |              |
| Total other loans                                                     | 3,391                 |              | 2,582                    |              |
| Valuation allowance                                                   | (66)                  |              | (70)                     |              |
| Total net other loans                                                 | 3,325                 |              | 2,512                    |              |
| Total commercial mortgage and other loans(1)                          | \$ 32,960             |              | \$ 31,831                |              |

(1) Includes loans held at fair value.

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The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (25%), New York (10%) and Texas (7%) at March 31, 2011.

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

|                                                | March 31, 2011                  |                                   |                                  |                                  |                           |        |
|------------------------------------------------|---------------------------------|-----------------------------------|----------------------------------|----------------------------------|---------------------------|--------|
|                                                | Commercial<br>Mortgage<br>Loans | Agricultural<br>Property<br>Loans | Residential<br>Property<br>Loans | Other<br>Collateralized<br>Loans | Uncollateralized<br>Loans | Total  |
|                                                | (in millions)                   |                                   |                                  |                                  |                           |        |
| Allowance for losses, beginning of year        | \$ 497                          | \$ 8                              | \$ 17                            | 20                               | \$ 33                     | \$ 575 |
| Addition to / (release of) allowance of losses | (20)                            | 6                                 | (1)                              | 0                                | 0                         | (15)   |
| Charge-offs, net of recoveries                 | 0                               | 0                                 | 0                                | (3)                              | 0                         | (3)    |
| Change in foreign exchange                     | 0                               | 0                                 | 0                                | 0                                | 0                         | 0      |
| Total Ending Balance                           | \$ 477                          | \$ 14                             | \$ 16                            | \$ 17                            | \$ 33                     | \$ 557 |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                | Commercial<br>Mortgage<br>Loans | Agricultural<br>Property<br>Loans | Residential<br>Property<br>Loans | December 31, 2010<br>Other<br>Collateralized<br>Loans<br>(in millions) | Uncollateralized<br>Loans | Total  |
|------------------------------------------------|---------------------------------|-----------------------------------|----------------------------------|------------------------------------------------------------------------|---------------------------|--------|
| Allowance for losses, beginning of year        | \$ 639                          | \$ 0                              | \$ 18                            | \$ 20                                                                  | \$ 21                     | \$ 698 |
| Addition to / (release of) allowance of losses | (125)                           | 8                                 | (2)                              | 1                                                                      | 11                        | (107)  |
| Charge-offs, net of recoveries                 | (17)                            | 0                                 | 0                                | (1)                                                                    | 0                         | (18)   |
| Change in foreign exchange                     | 0                               | 0                                 | 1                                | 0                                                                      | 1                         | 2      |
| Total Ending Balance                           | \$ 497                          | \$ 8                              | \$ 17                            | \$ 20                                                                  | \$ 33                     | \$ 575 |

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

|                                                                 | Commercial<br>Mortgage<br>Loans | Agricultural<br>Property<br>Loans | Residential<br>Property<br>Loans | March 31, 2011<br>Other<br>Collateralized<br>Loans<br>(in millions) | Uncollateralized<br>Loans | Total  |
|-----------------------------------------------------------------|---------------------------------|-----------------------------------|----------------------------------|---------------------------------------------------------------------|---------------------------|--------|
| <b>Allowance for Credit Losses:</b>                             |                                 |                                   |                                  |                                                                     |                           |        |
| Ending Balance: individually evaluated for impairment           | \$ 251                          | \$ 6                              | \$ 0                             | \$ 17                                                               | \$ 15                     | \$ 289 |
| Ending Balance: collectively evaluated for impairment           | 226                             | 8                                 | 16                               | 0                                                                   | 18                        | 268    |
| Ending Balance: loans acquired with deteriorated credit quality | 0                               | 0                                 | 0                                | 0                                                                   | 0                         | 0      |
| Total Ending Balance                                            | \$ 477                          | \$ 14                             | \$ 16                            | \$ 17                                                               | \$ 33                     | \$ 557 |

**Recorded Investment:(1)**

|                                                                                   |           |          |          |        |          |           |
|-----------------------------------------------------------------------------------|-----------|----------|----------|--------|----------|-----------|
| Ending balance gross of reserves: individually evaluated for impairment           | \$ 2,113  | \$ 42    | \$ 0     | \$ 146 | \$ 36    | \$ 2,337  |
| Ending balance gross of reserves: collectively evaluated for impairment           | 25,951    | 2,020    | 1,071    | 91     | 2,047    | 31,180    |
| Ending balance gross of reserves: loans acquired with deteriorated credit quality | 0         | 0        | 0        | 0      | 0        | 0         |
| Total ending balance, gross of reserves                                           | \$ 28,064 | \$ 2,062 | \$ 1,071 | \$ 237 | \$ 2,083 | \$ 33,517 |

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                   | December 31, 2010               |                                   |                                  |                                  |                           |           |
|-----------------------------------------------------------------------------------|---------------------------------|-----------------------------------|----------------------------------|----------------------------------|---------------------------|-----------|
|                                                                                   | Commercial<br>Mortgage<br>Loans | Agricultural<br>Property<br>Loans | Residential<br>Property<br>Loans | Other<br>Collateralized<br>Loans | Uncollateralized<br>Loans | Total     |
|                                                                                   | (in millions)                   |                                   |                                  |                                  |                           |           |
| <b>Allowance for Credit Losses:</b>                                               |                                 |                                   |                                  |                                  |                           |           |
| Ending Balance: individually evaluated for impairment                             | \$ 264                          | \$ 0                              | \$ 0                             | \$ 20                            | \$ 16                     | \$ 300    |
| Ending Balance: collectively evaluated for impairment                             | 233                             | 8                                 | 17                               | 0                                | 17                        | 275       |
| Ending Balance: loans acquired with deteriorated credit quality                   | 0                               | 0                                 | 0                                | 0                                | 0                         | 0         |
| Total Ending Balance                                                              | \$ 497                          | \$ 8                              | \$ 17                            | \$ 20                            | \$ 33                     | \$ 575    |
| <b>Recorded Investment:(1)</b>                                                    |                                 |                                   |                                  |                                  |                           |           |
| Ending balance gross of reserves: individually evaluated for impairment           | \$ 2,279                        | \$ 39                             | \$ 0                             | \$ 147                           | \$ 36                     | \$ 2,501  |
| Ending balance gross of reserves: collectively evaluated for impairment           | 25,652                          | 1,854                             | 891                              | 76                               | 1,432                     | 29,905    |
| Ending balance gross of reserves: loans acquired with deteriorated credit quality | 0                               | 0                                 | 0                                | 0                                | 0                         | 0         |
| Total ending balance, gross of reserves                                           | \$ 27,931                       | \$ 1,893                          | \$ 891                           | \$ 223                           | \$ 1,468                  | \$ 32,406 |

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.

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Impaired loans include those loans for which it is probable that amounts due according to the contractual terms of the loan agreement will not all be collected. Impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses, as of the dates indicated are as follows:

|                                            | As of March 31, 2011      |                                |                                       |                                                             |                                     |
|--------------------------------------------|---------------------------|--------------------------------|---------------------------------------|-------------------------------------------------------------|-------------------------------------|
|                                            | Recorded<br>Investment(1) | Unpaid<br>Principal<br>Balance | Related<br>Allowance<br>(in millions) | Average<br>Recorded<br>Investment<br>Before<br>Allowance(3) | Interest<br>Income<br>Recognized(2) |
| <b>With no related allowance recorded:</b> |                           |                                |                                       |                                                             |                                     |
| Commercial mortgage loans:                 |                           |                                |                                       |                                                             |                                     |
| Industrial                                 | \$ 0                      | \$ 0                           | \$ 0                                  | \$ 0                                                        | \$ 0                                |
| Retail                                     | 0                         | 0                              | 0                                     | 0                                                           | 0                                   |
| Office                                     | 4                         | 80                             | 0                                     | 2                                                           | 0                                   |
| Apartments/Multi-Family                    | 0                         | 0                              | 0                                     | 0                                                           | 0                                   |
| Hospitality                                | 1                         | 61                             | 0                                     | 32                                                          | 0                                   |
| Other                                      | 9                         | 9                              | 0                                     | 5                                                           | 0                                   |
| <b>Total commercial mortgage loans</b>     | <b>14</b>                 | <b>150</b>                     | <b>0</b>                              | <b>39</b>                                                   | <b>0</b>                            |
| Agricultural property loans                | 1                         | 1                              | 0                                     | 1                                                           | 0                                   |
| Residential property loans                 | 0                         | 0                              | 0                                     | 0                                                           | 0                                   |
| Other collateralized loans                 | 0                         | 0                              | 0                                     | 0                                                           | 0                                   |
| Uncollateralized loans                     | 12                        | 17                             | 0                                     | 6                                                           | 0                                   |
| <b>Total with no related allowance</b>     | <b>\$ 27</b>              | <b>\$ 168</b>                  | <b>\$ 0</b>                           | <b>\$ 46</b>                                                | <b>\$ 0</b>                         |
| <b>With an allowance recorded:</b>         |                           |                                |                                       |                                                             |                                     |
| Commercial mortgage loans:                 |                           |                                |                                       |                                                             |                                     |
| Industrial                                 | \$ 26                     | \$ 26                          | \$ 19                                 | \$ 22                                                       | \$ 0                                |
| Retail                                     | 144                       | 144                            | 19                                    | 150                                                         | 1                                   |
| Office                                     | 37                        | 37                             | 7                                     | 40                                                          | 0                                   |
| Apartments/Multi-Family                    | 322                       | 322                            | 109                                   | 322                                                         | 1                                   |
| Hospitality                                | 207                       | 207                            | 73                                    | 213                                                         | 0                                   |
| Other                                      | 122                       | 122                            | 24                                    | 108                                                         | 1                                   |
| <b>Total commercial mortgage loans</b>     | <b>858</b>                | <b>858</b>                     | <b>251</b>                            | <b>855</b>                                                  | <b>3</b>                            |
| Agricultural property loans                | 18                        | 18                             | 6                                     | 9                                                           | 0                                   |
| Residential property loans                 | 0                         | 0                              | 0                                     | 13                                                          | 0                                   |
| Other collateralized loans                 | 25                        | 25                             | 17                                    | 27                                                          | 0                                   |
| Uncollateralized loans                     | 24                        | 24                             | 15                                    | 30                                                          | 0                                   |
| <b>Total with related allowance</b>        | <b>\$ 925</b>             | <b>\$ 925</b>                  | <b>\$ 289</b>                         | <b>\$ 934</b>                                               | <b>\$ 3</b>                         |
| <b>Total:</b>                              |                           |                                |                                       |                                                             |                                     |
| Commercial mortgage loans                  | \$ 872                    | \$ 1,008                       | \$ 251                                | \$ 894                                                      | \$ 3                                |
| Agricultural property loans                | 19                        | 19                             | 6                                     | 10                                                          | 0                                   |
| Residential property loans                 | 0                         | 0                              | 0                                     | 13                                                          | 0                                   |
| Other collateralized loans                 | 25                        | 25                             | 17                                    | 27                                                          | 0                                   |
| Uncollateralized loans                     | 36                        | 41                             | 15                                    | 36                                                          | 0                                   |

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|       |        |          |        |        |      |
|-------|--------|----------|--------|--------|------|
| Total | \$ 952 | \$ 1,093 | \$ 289 | \$ 980 | \$ 3 |
|-------|--------|----------|--------|--------|------|

- (1) Recorded investment reflects the balance sheet carrying value gross of related allowance.
- (2) The interest income recognized is for the year-to-date of income regardless of when the impairments occurred.
- (3) Average recorded investment represents the average of the beginning-of-period and end-of-period balances.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                            | As of December 31, 2010   |                                                 |                      |
|--------------------------------------------|---------------------------|-------------------------------------------------|----------------------|
|                                            | Recorded<br>Investment(1) | Unpaid<br>Principal<br>Balance<br>(in millions) | Related<br>Allowance |
| <b>With no related allowance recorded:</b> |                           |                                                 |                      |
| Commercial mortgage loans:                 |                           |                                                 |                      |
| Industrial                                 | \$ 0                      | \$ 0                                            | \$ 0                 |
| Retail                                     | 0                         | 0                                               | 0                    |
| Office                                     | 0                         | 0                                               | 0                    |
| Apartments/Multi-Family                    | 0                         | 0                                               | 0                    |
| Hospitality                                | 64                        | 64                                              | 0                    |
| Other                                      | 0                         | 0                                               | 0                    |
| Total commercial mortgage loans            | 64                        | 64                                              | 0                    |
| Agricultural property loans                | 1                         | 1                                               | 0                    |
| Residential property loans                 | 0                         | 0                                               | 0                    |
| Other collateralized loans                 | 0                         | 0                                               | 0                    |
| Uncollateralized loans                     | 0                         | 12                                              | 0                    |
| Total with no related allowance            | \$ 65                     | \$ 77                                           | \$ 0                 |
| <b>With an allowance recorded:</b>         |                           |                                                 |                      |
| Commercial mortgage loans:                 |                           |                                                 |                      |
| Industrial                                 | \$ 18                     | \$ 18                                           | \$ 18                |
| Retail                                     | 155                       | 155                                             | 23                   |
| Office                                     | 43                        | 43                                              | 10                   |
| Apartments/Multi-Family                    | 323                       | 323                                             | 103                  |
| Hospitality                                | 218                       | 218                                             | 89                   |
| Other                                      | 95                        | 96                                              | 21                   |
| Total commercial mortgage loans            | 852                       | 853                                             | 264                  |
| Agricultural property loans                | 0                         | 0                                               | 0                    |
| Residential property loans                 | 26                        | 31                                              | 0                    |
| Other collateralized loans                 | 29                        | 29                                              | 19                   |
| Uncollateralized loans                     | 35                        | 38                                              | 16                   |
| Total with related allowance               | \$ 942                    | \$ 951                                          | \$ 299               |
| <b>Total:</b>                              |                           |                                                 |                      |
| Commercial mortgage loans                  | \$ 916                    | \$ 917                                          | \$ 264               |
| Agricultural property loans                | 1                         | 1                                               | 0                    |
| Residential property loans                 | 26                        | 31                                              | 0                    |
| Other collateralized loans                 | 29                        | 29                                              | 19                   |

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|                        |                 |                 |               |
|------------------------|-----------------|-----------------|---------------|
| Uncollateralized loans | 35              | 50              | 16            |
| <b>Total</b>           | <b>\$ 1,007</b> | <b>\$ 1,028</b> | <b>\$ 299</b> |

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.

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

Impaired commercial mortgage and other loans with no allowance for losses are loans in which the fair value of the collateral or the net present value of the loans' expected future cash flows equals or exceeds the recorded investment. The average recorded investment in non-performing loans before allowance for losses was \$750 million at December 31, 2010. Net investment income recognized on these loans totaled \$35 million for the year ended December 31, 2010. See Note 2 for information regarding the Company's accounting policies for commercial mortgage and other loans.

The net carrying value of commercial loans held for sale by the Company as of March 31, 2011 and December 31, 2010 was \$94 million and \$136 million, respectively. As of March 31, 2011 and December 31, 2010, all of the Company's commercial loans held for sale were collateralized, with collateral primarily consisting of office buildings, retail properties, apartment complexes and industrial buildings. In certain transactions, the Company prearranges that it will sell the loan to an investor. As of March 31, 2011, \$94 million and, as of December 31, 2010, \$136 million, respectively, of loans held for sale are subject to such arrangements.

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The following tables set forth the credit quality indicators as of March 31, 2011, based upon the recorded investment gross of allowance for credit losses.

**Commercial mortgage loans Industrial buildings**

|                     | Debt Service Coverage Ratio March 31, 2011 |              |               |                                |               | Less than<br>1.0X | Grand Total |
|---------------------|--------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                       | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X |                   |             |
| Loan-to-Value Ratio |                                            |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 856                                     | \$ 161       | \$ 205        | \$ 212                         | \$ 55         | \$ 24             | \$ 1,513    |
| 50%-59.99%          | 323                                        | 99           | 180           | 100                            | 35            | 33                | 770         |
| 60%-69.99%          | 203                                        | 337          | 322           | 588                            | 265           | 126               | 1,841       |
| 70%-79.99%          | 71                                         | 97           | 453           | 509                            | 404           | 74                | 1,608       |
| 80%-89.99%          | 0                                          | 0            | 47            | 128                            | 56            | 269               | 500         |
| 90%-100%            | 0                                          | 0            | 0             | 17                             | 0             | 206               | 223         |
| Greater than 100%   | 0                                          | 16           | 0             | 6                              | 26            | 117               | 165         |
| Total Industrial    | \$ 1,453                                   | \$ 710       | \$ 1,207      | \$ 1,560                       | \$ 841        | \$ 849            | \$ 6,620    |

**Commercial mortgage loans Retail**

|                     | Debt Service Coverage Ratio March 31, 2011 |                 |                  |                                   |                  |                      |                |
|---------------------|--------------------------------------------|-----------------|------------------|-----------------------------------|------------------|----------------------|----------------|
|                     | Greater<br>than<br>2.0X                    | 1.8X to<br>2.0X | 1.5X to<br><1.8X | 1.2X to<br><1.5X<br>(in millions) | 1.0X to<br><1.2X | Less<br>than<br>1.0X | Grand<br>Total |
| Loan-to-Value Ratio |                                            |                 |                  |                                   |                  |                      |                |
| 0%-49.99%           | \$ 602                                     | \$ 328          | \$ 464           | \$ 75                             | \$ 41            | \$ 4                 | \$ 1,514       |
| 50%-59.99%          | 640                                        | 90              | 432              | 66                                | 155              | 1                    | 1,384          |
| 60%-69.99%          | 469                                        | 306             | 761              | 301                               | 93               | 4                    | 1,934          |
| 70%-79.99%          | 81                                         | 46              | 346              | 551                               | 123              | 17                   | 1,164          |
| 80%-89.99%          | 0                                          | 0               | 49               | 117                               | 23               | 0                    | 189            |
| 90%-100%            | 0                                          | 0               | 20               | 0                                 | 40               | 38                   | 98             |
| Greater than 100%   | 0                                          | 0               | 13               | 2                                 | 169              | 0                    | 184            |
| Total Retail        | \$ 1,792                                   | \$ 770          | \$ 2,085         | \$ 1,112                          | \$ 644           | \$ 64                | \$ 6,467       |

**Commercial mortgage loans Office**

|  | Debt Service Coverage Ratio March 31, 2011 |              |               |                                |               |                   | Grand Total |
|--|--------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|  | Greater than<br>2.0X                       | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X | Less than<br>1.0X |             |

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| <b>Loan-to-Value Ratio</b> |          |        |        |        |        |        |          |
|----------------------------|----------|--------|--------|--------|--------|--------|----------|
| 0%-49.99%                  | \$ 1,776 | \$ 60  | \$ 260 | \$ 165 | \$ 13  | \$ 41  | \$ 2,315 |
| 50%-59.99%                 | 386      | 197    | 220    | 75     | 84     | 16     | 978      |
| 60%-69.99%                 | 83       | 432    | 74     | 405    | 54     | 113    | 1,161    |
| 70%-79.99%                 | 19       | 19     | 31     | 84     | 37     | 586    | 776      |
| 80%-89.99%                 | 6        | 13     | 124    | 40     | 29     | 43     | 255      |
| 90%-100%                   | 0        | 0      | 17     | 113    | 174    | 62     | 366      |
| Greater than 100%          | 0        | 0      | 29     | 32     | 20     | 18     | 99       |
| Total Office               | \$ 2,270 | \$ 721 | \$ 755 | \$ 914 | \$ 411 | \$ 879 | \$ 5,950 |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Apartments/Multi-Family**

|                               | Debt Service Coverage Ratio March 31, 2011 |                 |                  |                                   |                  |                      |                |
|-------------------------------|--------------------------------------------|-----------------|------------------|-----------------------------------|------------------|----------------------|----------------|
|                               | Greater<br>than<br>2.0X                    | 1.8X to<br>2.0X | 1.5X to<br><1.8X | 1.2X to<br><1.5X<br>(in millions) | 1.0X to<br><1.2X | Less<br>than<br>1.0X | Grand<br>Total |
| Loan-to-Value Ratio           |                                            |                 |                  |                                   |                  |                      |                |
| 0%-49.99%                     | \$ 736                                     | \$ 244          | \$ 208           | \$ 174                            | \$ 266           | \$ 77                | \$ 1,705       |
| 50%-59.99%                    | 16                                         | 0               | 150              | 103                               | 79               | 7                    | 355            |
| 60%-69.99%                    | 103                                        | 16              | 188              | 202                               | 92               | 46                   | 647            |
| 70%-79.99%                    | 74                                         | 65              | 135              | 291                               | 135              | 123                  | 823            |
| 80%-89.99%                    | 0                                          | 0               | 82               | 36                                | 158              | 116                  | 392            |
| 90%-100%                      | 20                                         | 0               | 0                | 75                                | 20               | 152                  | 267            |
| Greater than 100%             | 0                                          | 0               | 113              | 156                               | 82               | 423                  | 774            |
| Total Apartments/Multi-Family | \$ 949                                     | \$ 325          | \$ 876           | \$ 1,037                          | \$ 832           | \$ 944               | \$ 4,963       |

**Commercial mortgage loans Hospitality**

|                     | Debt Service Coverage Ratio March 31, 2011 |                 |                  |                                   |                  |                      |                |
|---------------------|--------------------------------------------|-----------------|------------------|-----------------------------------|------------------|----------------------|----------------|
|                     | Greater<br>than<br>2.0X                    | 1.8X to<br>2.0X | 1.5X to<br><1.8X | 1.2X to<br><1.5X<br>(in millions) | 1.0X to<br><1.2X | Less<br>than<br>1.0X | Grand<br>Total |
| Loan-to-Value Ratio |                                            |                 |                  |                                   |                  |                      |                |
| 0%-49.99%           | \$ 250                                     | \$ 29           | \$ 7             | \$ 145                            | \$ 0             | \$ 0                 | \$ 431         |
| 50%-59.99%          | 21                                         | 0               | 0                | 0                                 | 0                | 0                    | 21             |
| 60%-69.99%          | 66                                         | 35              | 52               | 238                               | 70               | 0                    | 461            |
| 70%-79.99%          | 0                                          | 0               | 54               | 76                                | 48               | 0                    | 178            |
| 80%-89.99%          | 0                                          | 0               | 77               | 0                                 | 71               | 19                   | 167            |
| 90%-100%            | 0                                          | 0               | 19               | 0                                 | 0                | 88                   | 107            |
| Greater than 100%   | 0                                          | 46              | 4                | 10                                | 24               | 124                  | 208            |
| Total Hospitality   | \$ 337                                     | \$ 110          | \$ 213           | \$ 469                            | \$ 213           | \$ 231               | \$ 1,573       |

**Commercial mortgage loans Other**

|                     | Debt Service Coverage Ratio March 31, 2011 |              |               |                                |               |                   | Grand Total |
|---------------------|--------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                       | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X | Less than<br>1.0X |             |
| Loan-to-Value Ratio |                                            |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 329                                     | \$ 0         | \$ 13         | \$ 76                          | \$ 1          | \$ 2              | \$ 421      |
| 50%-59.99%          | 46                                         | 0            | 46            | 0                              | 0             | 0                 | 92          |

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|                   |        |        |        |        |        |        |          |
|-------------------|--------|--------|--------|--------|--------|--------|----------|
| 60%-69.99%        | 57     | 180    | 32     | 411    | 122    | 7      | 809      |
| 70%-79.99%        | 3      | 67     | 346    | 170    | 13     | 0      | 599      |
| 80%-89.99%        | 134    | 0      | 45     | 173    | 11     | 6      | 369      |
| 90%-100%          | 0      | 0      | 0      | 0      | 21     | 9      | 30       |
| Greater than 100% | 0      | 0      | 0      | 0      | 11     | 160    | 171      |
| Total Other       | \$ 569 | \$ 247 | \$ 482 | \$ 830 | \$ 179 | \$ 184 | \$ 2,491 |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Agricultural property loans**

|                     | Debt Service Coverage Ratio March 31, 2011 |              |               |                                |               | Less than<br>1.0X | Grand Total |
|---------------------|--------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                       | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X |                   |             |
| Loan-to-Value Ratio |                                            |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 415                                     | \$ 88        | \$ 404        | \$ 452                         | \$ 79         | \$ 0              | \$ 1,438    |
| 50%-59.99%          | 42                                         | 133          | 30            | 25                             | 0             | 0                 | 230         |
| 60%-69.99%          | 160                                        | 0            | 186           | 0                              | 0             | 0                 | 346         |
| 70%-79.99%          | 0                                          | 11           | 0             | 0                              | 0             | 37                | 48          |
| 80%-89.99%          | 0                                          | 0            | 0             | 0                              | 0             | 0                 | 0           |
| 90%-100%            | 0                                          | 0            | 0             | 0                              | 0             | 0                 | 0           |
| Greater than 100%   | 0                                          | 0            | 0             | 0                              | 0             | 0                 | 0           |
| Total Agricultural  | \$ 617                                     | \$ 232       | \$ 620        | \$ 477                         | \$ 79         | \$ 37             | \$ 2,062    |

**Commercial mortgage and agricultural loans**

|                                               | Debt Service Coverage Ratio March 31, 2011 |              |               |                                |               | Less than<br>1.0X | Grand Total |
|-----------------------------------------------|--------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                                               | Greater than<br>2.0X                       | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X |                   |             |
| Loan-to-Value Ratio                           |                                            |              |               |                                |               |                   |             |
| 0%-49.99%                                     | \$ 4,964                                   | \$ 910       | \$ 1,561      | \$ 1,299                       | \$ 455        | \$ 148            | \$ 9,337    |
| 50%-59.99%                                    | 1,474                                      | 519          | 1,058         | 369                            | 353           | 57                | 3,830       |
| 60%-69.99%                                    | 1,141                                      | 1,306        | 1,615         | 2,145                          | 696           | 296               | 7,199       |
| 70%-79.99%                                    | 248                                        | 305          | 1,365         | 1,681                          | 760           | 837               | 5,196       |
| 80%-89.99%                                    | 140                                        | 13           | 424           | 494                            | 348           | 453               | 1,872       |
| 90%-100%                                      | 20                                         | 0            | 56            | 205                            | 255           | 555               | 1,091       |
| Greater than 100%                             | 0                                          | 62           | 159           | 206                            | 332           | 842               | 1,601       |
|                                               |                                            |              |               |                                |               |                   |             |
| Total Commercial Mortgage<br>and Agricultural | \$ 7,987                                   | \$ 3,115     | \$ 6,238      | \$ 6,399                       | \$ 3,199      | \$ 3,188          | \$ 30,126   |

See Note 2 for further discussion regarding the credit quality of other loans.

The following tables set forth the credit quality indicators as of December 31, 2010, based upon the recorded investment gross of allowance for credit losses.



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Industrial buildings**

|                     | Debt Service Coverage Ratio December 31, 2010 |              |               |                                |               |                   | Grand Total |
|---------------------|-----------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                          | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X | Less than<br>1.0X |             |
| Loan-to-Value Ratio |                                               |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 622                                        | \$ 319       | \$ 196        | \$ 191                         | \$ 15         | \$ 23             | \$ 1,366    |
| 50%-59.99%          | 364                                           | 71           | 149           | 186                            | 45            | 49                | 864         |
| 60%-69.99%          | 424                                           | 93           | 495           | 435                            | 194           | 115               | 1,756       |
| 70%-79.99%          | 71                                            | 97           | 528           | 564                            | 223           | 215               | 1,698       |
| 80%-89.99%          | 0                                             | 0            | 17            | 136                            | 94            | 316               | 563         |
| 90%-100%            | 0                                             | 0            | 0             | 0                              | 46            | 134               | 180         |
| Greater than 100%   | 16                                            | 0            | 0             | 7                              | 10            | 116               | 149         |
| Total Industrial    | \$ 1,497                                      | \$ 580       | \$ 1,385      | \$ 1,519                       | \$ 627        | \$ 968            | \$ 6,576    |

**Commercial mortgage loans Retail**

|                     | Debt Service Coverage Ratio December 31, 2010 |              |               |                                |               |                   | Grand Total |
|---------------------|-----------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                          | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X | Less than<br>1.0X |             |
| Loan-to-Value Ratio |                                               |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 613                                        | \$ 328       | \$ 447        | \$ 87                          | \$ 31         | \$ 4              | \$ 1,510    |
| 50%-59.99%          | 608                                           | 158          | 409           | 54                             | 154           | 1                 | 1,384       |
| 60%-69.99%          | 365                                           | 402          | 450           | 335                            | 48            | 4                 | 1,604       |
| 70%-79.99%          | 80                                            | 52           | 436           | 601                            | 135           | 0                 | 1,304       |
| 80%-89.99%          | 0                                             | 0            | 96            | 103                            | 83            | 0                 | 282         |
| 90%-100%            | 0                                             | 0            | 20            | 9                              | 29            | 21                | 79          |
| Greater than 100%   | 0                                             | 0            | 13            | 21                             | 149           | 42                | 225         |
| Total Retail        | \$ 1,666                                      | \$ 940       | \$ 1,871      | \$ 1,210                       | \$ 629        | \$ 72             | \$ 6,388    |

**Commercial mortgage loans Office**

|                     | Debt Service Coverage Ratio December 31, 2010 |              |               |                                |               |                   | Grand Total |
|---------------------|-----------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                          | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X | Less than<br>1.0X |             |
| Loan-to-Value Ratio |                                               |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 1,801                                      | \$ 58        | \$ 310        | \$ 137                         | \$ 17         | \$ 27             | \$ 2,350    |
| 50%-59.99%          | 311                                           | 207          | 221           | 106                            | 46            | 16                | 907         |
| 60%-69.99%          | 136                                           | 229          | 122           | 175                            | 17            | 55                | 734         |
| 70%-79.99%          | 20                                            | 0            | 87            | 212                            | 596           | 1                 | 916         |
| 80%-89.99%          | 5                                             | 0            | 0             | 415                            | 39            | 25                | 484         |

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|                   |          |        |        |          |        |        |          |
|-------------------|----------|--------|--------|----------|--------|--------|----------|
| 90%-100%          | 0        | 12     | 0      | 50       | 174    | 61     | 297      |
| Greater than 100% | 0        | 0      | 0      | 67       | 16     | 32     | 115      |
| Total Office      | \$ 2,273 | \$ 506 | \$ 740 | \$ 1,162 | \$ 905 | \$ 217 | \$ 5,803 |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Commercial mortgage loans Apartments/Multi-Family**

|                               | Debt Service Coverage Ratio December 31, 2010 |              |               |                                |               |                   | Grand Total |
|-------------------------------|-----------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                               | Greater than<br>2.0X                          | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X | Less than<br>1.0X |             |
| <b>Loan-to-Value Ratio</b>    |                                               |              |               |                                |               |                   |             |
| 0%-49.99%                     | \$ 737                                        | \$ 209       | \$ 332        | \$ 197                         | \$ 271        | \$ 66             | \$ 1,812    |
| 50%-59.99%                    | 24                                            | 20           | 114           | 173                            | 65            | 8                 | 404         |
| 60%-69.99%                    | 96                                            | 17           | 177           | 250                            | 100           | 27                | 667         |
| 70%-79.99%                    | 70                                            | 47           | 137           | 226                            | 119           | 65                | 664         |
| 80%-89.99%                    | 0                                             | 0            | 52            | 96                             | 301           | 105               | 554         |
| 90%-100%                      | 20                                            | 0            | 8             | 75                             | 21            | 199               | 323         |
| Greater than 100%             | 0                                             | 0            | 0             | 156                            | 56            | 504               | 716         |
| Total Apartments/Multi-Family | \$ 947                                        | \$ 293       | \$ 820        | \$ 1,173                       | \$ 933        | \$ 974            | \$ 5,140    |

**Commercial mortgage loans Hospitality**

|                     | Debt Service Coverage Ratio December 31, 2010 |                 |                  |                                   |                  |                      |                |
|---------------------|-----------------------------------------------|-----------------|------------------|-----------------------------------|------------------|----------------------|----------------|
|                     | Greater<br>than<br>2.0X                       | 1.8X to<br>2.0X | 1.5X to<br><1.8X | 1.2X to<br><1.5X<br>(in millions) | 1.0X to<br><1.2X | Less<br>than<br>1.0X | Grand<br>Total |
| Loan-to-Value Ratio |                                               |                 |                  |                                   |                  |                      |                |
| 0%-49.99%           | \$ 153                                        | \$ 0            | \$ 128           | \$ 120                            | \$ 0             | \$ 28                | \$ 429         |
| 50%-59.99%          | 21                                            | 0               | 0                | 0                                 | 0                | 0                    | 21             |
| 60%-69.99%          | 0                                             | 36              | 52               | 156                               | 59               | 11                   | 314            |
| 70%-79.99%          | 0                                             | 0               | 6                | 243                               | 0                | 0                    | 249            |
| 80%-89.99%          | 0                                             | 4               | 72               | 0                                 | 72               | 101                  | 249            |
| 90%-100%            | 0                                             | 0               | 19               | 0                                 | 0                | 88                   | 107            |
| Greater than 100%   | 0                                             | 0               | 0                | 59                                | 35               | 121                  | 215            |
| Total Hospitality   | \$ 174                                        | \$ 40           | \$ 277           | \$ 578                            | \$ 166           | \$ 349               | \$ 1,584       |

**Commercial mortgage loans Other**

|                     | Debt Service Coverage Ratio December 31, 2010 |                 |                  |                                   |                  |                      |                |
|---------------------|-----------------------------------------------|-----------------|------------------|-----------------------------------|------------------|----------------------|----------------|
|                     | Greater<br>than<br>2.0X                       | 1.8X to<br>2.0X | 1.5X to<br><1.8X | 1.2X to<br><1.5X<br>(in millions) | 1.0X to<br><1.2X | Less<br>than<br>1.0X | Grand<br>Total |
| Loan-to-Value Ratio |                                               |                 |                  |                                   |                  |                      |                |
| 0%-49.99%           | \$ 377                                        | \$ 0            | \$ 14            | \$ 19                             | \$ 0             | \$ 1                 | \$ 411         |
| 50%-59.99%          | 40                                            | 14              | 25               | 59                                | 0                | 0                    | 138            |

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|                   |        |        |        |        |        |        |          |
|-------------------|--------|--------|--------|--------|--------|--------|----------|
| 60%-69.99%        | 57     | 193    | 37     | 457    | 123    | 7      | 874      |
| 70%-79.99%        | 3      | 67     | 194    | 107    | 74     | 0      | 445      |
| 80%-89.99%        | 133    | 0      | 45     | 135    | 11     | 6      | 330      |
| 90%-100%          | 0      | 0      | 0      | 0      | 0      | 10     | 10       |
| Greater than 100% | 0      | 0      | 0      | 38     | 33     | 161    | 232      |
| Total Other       | \$ 610 | \$ 274 | \$ 315 | \$ 815 | \$ 241 | \$ 185 | \$ 2,440 |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Agricultural property loans**

|                     | Debt Service Coverage Ratio December 31, 2010 |              |               |                                |               | Less than<br>1.0X | Grand Total |
|---------------------|-----------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                     | Greater than<br>2.0X                          | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X |                   |             |
| Loan-to-Value Ratio |                                               |              |               |                                |               |                   |             |
| 0%-49.99%           | \$ 407                                        | \$ 107       | \$ 349        | \$ 488                         | \$ 121        | \$ 5              | \$ 1,477    |
| 50%-59.99%          | 38                                            | 136          | 18            | 26                             | 0             | 0                 | 218         |
| 60%-69.99%          | 161                                           | 0            | 0             | 0                              | 28            | 0                 | 189         |
| 70%-79.99%          | 0                                             | 0            | 0             | 0                              | 0             | 9                 | 9           |
| 80%-89.99%          | 0                                             | 0            | 0             | 0                              | 0             | 0                 | 0           |
| 90%-100%            | 0                                             | 0            | 0             | 0                              | 0             | 0                 | 0           |
| Greater than 100%   | 0                                             | 0            | 0             | 0                              | 0             | 0                 | 0           |
| Total Agricultural  | \$ 606                                        | \$ 243       | \$ 367        | \$ 514                         | \$ 149        | \$ 14             | \$ 1,893    |

**Commercial mortgage and agricultural loans**

|                                               | Debt Service Coverage Ratio December 31, 2010 |              |               |                                |               | Less than<br>1.0X | Grand Total |
|-----------------------------------------------|-----------------------------------------------|--------------|---------------|--------------------------------|---------------|-------------------|-------------|
|                                               | Greater than<br>2.0X                          | 1.8X to 2.0X | 1.5X to <1.8X | 1.2X to <1.5X<br>(in millions) | 1.0X to <1.2X |                   |             |
| Loan-to-Value Ratio                           |                                               |              |               |                                |               |                   |             |
| 0%-49.99%                                     | \$ 4,710                                      | \$ 1,021     | \$ 1,776      | \$ 1,239                       | \$ 455        | \$ 154            | \$ 9,355    |
| 50%-59.99%                                    | 1,406                                         | 606          | 936           | 604                            | 310           | 74                | 3,936       |
| 60%-69.99%                                    | 1,239                                         | 970          | 1,333         | 1,808                          | 569           | 219               | 6,138       |
| 70%-79.99%                                    | 244                                           | 263          | 1,388         | 1,953                          | 1,147         | 290               | 5,285       |
| 80%-89.99%                                    | 138                                           | 4            | 282           | 885                            | 600           | 553               | 2,462       |
| 90%-100%                                      | 20                                            | 12           | 47            | 134                            | 270           | 513               | 996         |
| Greater than 100%                             | 16                                            | 0            | 13            | 348                            | 299           | 976               | 1,652       |
|                                               |                                               |              |               |                                |               |                   |             |
| Total Commercial Mortgage and<br>Agricultural | \$ 7,773                                      | \$ 2,876     | \$ 5,775      | \$ 6,971                       | \$ 3,650      | \$ 2,779          | \$ 29,824   |

See Note 2 for further discussion regarding the credit quality of other loans.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The following tables provide an aging of past due commercial mortgage and other loans as of the dates indicated, based upon the recorded investment gross of allowance for credit losses.

|                                 | As of March 31, 2011 |                     |                     |                                               |                                     |                | Total Commercial Mortgage and Other Loans |
|---------------------------------|----------------------|---------------------|---------------------|-----------------------------------------------|-------------------------------------|----------------|-------------------------------------------|
|                                 | Current              | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days - Accruing (in millions) | Greater Than 90 Days - Not Accruing | Total Past Due |                                           |
| Commercial mortgage loans:      |                      |                     |                     |                                               |                                     |                |                                           |
| Industrial                      | \$ 6,620             | \$ 0                | \$ 0                | \$ 0                                          | \$ 0                                | \$ 0           | \$ 6,620                                  |
| Retail                          | 6,438                | 0                   | 11                  | 0                                             | 18                                  | 29             | 6,467                                     |
| Office                          | 5,917                | 33                  | 0                   | 0                                             | 0                                   | 33             | 5,950                                     |
| Apartments/Multi-Family         | 4,699                | 0                   | 33                  | 0                                             | 231                                 | 264            | 4,963                                     |
| Hospitality                     | 1,501                | 0                   | 0                   | 0                                             | 72                                  | 72             | 1,573                                     |
| Other                           | 2,430                | 8                   | 0                   | 0                                             | 53                                  | 61             | 2,491                                     |
| Total commercial mortgage loans | 27,605               | 41                  | 44                  | 0                                             | 374                                 | 459            | 28,064                                    |
|                                 |                      |                     |                     |                                               |                                     |                |                                           |
| Agricultural property loans     | 2,021                | 0                   | 3                   | 0                                             | 38                                  | 41             | 2,062                                     |
| Residential property loans      | 1,018                | 21                  | 8                   | 0                                             | 24                                  | 53             | 1,071                                     |
| Other collateralized loans      | 228                  | 0                   | 0                   | 0                                             | 9                                   | 9              | 237                                       |
| Uncollateralized loans          | 2,083                | 0                   | 0                   | 0                                             | 0                                   | 0              | 2,083                                     |
| Total                           | \$ 32,955            | \$ 62               | \$ 55               | \$ 0                                          | \$ 445                              | \$ 562         | \$ 33,517                                 |

|                                 | As of December 31, 2010 |                     |                     |                                               |                                     |                | Total Commercial Mortgage and Other Loans |
|---------------------------------|-------------------------|---------------------|---------------------|-----------------------------------------------|-------------------------------------|----------------|-------------------------------------------|
|                                 | Current                 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days - Accruing (in millions) | Greater Than 90 Days - Not Accruing | Total Past Due |                                           |
| Commercial mortgage loans:      |                         |                     |                     |                                               |                                     |                |                                           |
| Industrial                      | \$ 6,576                | \$ 0                | \$ 0                | \$ 0                                          | \$ 0                                | \$ 0           | \$ 6,576                                  |
| Retail                          | 6,298                   | 71                  | 0                   | 0                                             | 19                                  | 90             | 6,388                                     |
| Office                          | 5,774                   | 22                  | 0                   | 0                                             | 7                                   | 29             | 5,803                                     |
| Apartments/Multi-Family         | 4,907                   | 33                  | 15                  | 0                                             | 185                                 | 233            | 5,140                                     |
| Hospitality                     | 1,467                   | 11                  | 10                  | 0                                             | 96                                  | 117            | 1,584                                     |
| Other                           | 2,370                   | 17                  | 0                   | 0                                             | 53                                  | 70             | 2,440                                     |
| Total commercial mortgage loans | 27,392                  | 154                 | 25                  | 0                                             | 360                                 | 539            | 27,931                                    |
| Agricultural property loans     | 1,853                   | 1                   | 0                   | 0                                             | 39                                  | 40             | 1,893                                     |

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|                            |           |        |       |      |        |        |           |
|----------------------------|-----------|--------|-------|------|--------|--------|-----------|
| Residential property loans | 847       | 19     | 3     | 0    | 22     | 44     | 891       |
| Other collateralized loans | 212       | 0      | 0     | 0    | 11     | 11     | 223       |
| Uncollateralized loans     | 1,468     | 0      | 0     | 0    | 0      | 0      | 1,468     |
| Total                      | \$ 31,772 | \$ 174 | \$ 28 | \$ 0 | \$ 432 | \$ 634 | \$ 32,406 |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

See Note 2 for further discussion regarding nonaccrual status loans. The following table sets forth commercial mortgage and other loans on nonaccrual status as of the dates indicated, based upon the recorded investment gross of allowance for credit losses:

|                                 | March 31, 2011 | December 31, 2010 |
|---------------------------------|----------------|-------------------|
|                                 | (in millions)  |                   |
| Commercial mortgage loans:      |                |                   |
| Industrial                      | \$ 26          | \$ 43             |
| Retail                          | 144            | 146               |
| Office                          | 62             | 65                |
| Apartments/Multi-Family         | 371            | 410               |
| Hospitality                     | 220            | 290               |
| Other                           | 161            | 151               |
| Total commercial mortgage loans | 984            | 1,105             |
| Agricultural property loans     | 40             | 39                |
| Residential property loans      | 24             | 22                |
| Other collateralized loans      | 46             | 50                |
| Uncollateralized loans          | 36             | 35                |
| Total                           | \$ 1,130       | \$ 1,251          |

The following table sets forth the commercial mortgage and other loans sold and acquired during the period ended March 31, 2011:

|             | Commercial<br>Mortgage<br>Loans | Agricultural<br>Property<br>Loans | Residential<br>Property<br>Loans | Other<br>Collateralized<br>Loans | Uncollateralized<br>Loans | Total  |
|-------------|---------------------------------|-----------------------------------|----------------------------------|----------------------------------|---------------------------|--------|
|             | (in millions)                   |                                   |                                  |                                  |                           |        |
| Acquired(1) | \$ 52                           | \$ 0                              | \$ 219                           | \$ 2                             | \$ 565                    | \$ 838 |
| Sold(2)     | 0                               | 0                                 | 0                                | 0                                | 0                         | 0      |

(1) Reported at purchase price of commercial mortgage and other loans acquired.

(2) Reported at book value of commercial mortgage and other loans sold.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Net Investment Income***

Net investment income for the three months ended March 31, 2011 and 2010 was from the following sources:

|                                             | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------------|-----------------------------------------|-------------|
|                                             | <b>2011</b>                             | <b>2010</b> |
|                                             | <b>(in millions)</b>                    |             |
| Fixed maturities, available for sale        | \$ 2,183                                | \$ 2,054    |
| Fixed maturities, held to maturity          | 37                                      | 34          |
| Equity securities, available for sale       | 73                                      | 70          |
| Trading account assets                      | 211                                     | 203         |
| Commercial mortgage and other loans         | 476                                     | 455         |
| Policy loans                                | 144                                     | 142         |
| Broker-dealer related receivables           | 0                                       | 0           |
| Short-term investments and cash equivalents | 13                                      | 10          |
| Other long-term investments                 | 79                                      | 4           |
| Gross investment income                     | 3,216                                   | 2,972       |
| Less investment expenses                    | (98)                                    | (100)       |
| Net investment income                       | \$ 3,118                                | \$ 2,872    |

***Realized Investment Gains (Losses), Net***

Realized investment gains (losses), net, for the three months ended March 31, 2011 and 2010 were from the following sources:

|                                         | <b>Three Months Ended<br/>March 31,</b> |             |
|-----------------------------------------|-----------------------------------------|-------------|
|                                         | <b>2011</b>                             | <b>2010</b> |
|                                         | <b>(in millions)</b>                    |             |
| Fixed maturities                        | \$ 25                                   | \$ (223)    |
| Equity securities                       | 62                                      | 41          |
| Commercial mortgage and other loans     | 11                                      | (7)         |
| Investment real estate                  | (3)                                     | 0           |
| Joint ventures and limited partnerships | (1)                                     | (2)         |
| Derivatives(1)                          | (161)                                   | 576         |
| Other                                   | 17                                      | 4           |

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|                                         |         |        |
|-----------------------------------------|---------|--------|
| Realized investment gains (losses), net | \$ (50) | \$ 389 |
|-----------------------------------------|---------|--------|

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

### ***Net Unrealized Investment Gains (Losses)***

Net unrealized investment gains and losses on securities classified as available for sale and certain other long-term investments and other assets are included in the Consolidated Statements of Financial Position as a component of Accumulated other comprehensive income (loss), or AOCI. Changes in these amounts include reclassification adjustments to exclude from Other comprehensive income (loss) those items that are included

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

as part of Net income for a period that had been part of Other comprehensive income (loss) in earlier periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows:

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

|                                                                                                                                                    | Net Unrealized<br>Gains (Losses) on<br>Investments | Deferred Policy<br>Acquisition<br>Costs,<br>Deferred<br>Sales<br>Inducements,<br>and Value<br>of<br>Business<br>Acquired | Future<br>Policy<br>Benefits | Policyholders<br>Dividends | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss)<br>Related To<br>Net<br>Unrealized<br>Investment<br>Gains<br>(Losses) |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                    | (in millions)                                      |                                                                                                                          |                              |                            |                                                  |                                                                                                                                 |
| Balance, December 31, 2010                                                                                                                         | \$ (849)                                           | \$ 22                                                                                                                    | \$ (5)                       | \$ 334                     | \$ 174                                           | \$ (324)                                                                                                                        |
| Net investment gains (losses) on investments arising during the period                                                                             | 116                                                |                                                                                                                          |                              |                            | (41)                                             | 75                                                                                                                              |
| Reclassification adjustment for (gains) losses included in net income                                                                              | 16                                                 |                                                                                                                          |                              |                            | (5)                                              | 11                                                                                                                              |
| Reclassification adjustment for OTTI losses excluded from net income(1)                                                                            | (9)                                                |                                                                                                                          |                              |                            | 3                                                | (6)                                                                                                                             |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired |                                                    | (12)                                                                                                                     |                              |                            | 4                                                | (8)                                                                                                                             |
| Impact of net unrealized investment (gains) losses on future policy benefits                                                                       |                                                    |                                                                                                                          | 6                            |                            | (2)                                              | 4                                                                                                                               |
| Impact of net unrealized investment (gains) losses on policyholders dividends                                                                      |                                                    |                                                                                                                          |                              | (26)                       | 9                                                | (17)                                                                                                                            |
| Balance, March 31, 2011                                                                                                                            | \$ (726)                                           | \$ 10                                                                                                                    | \$ 1                         | \$ 308                     | \$ 142                                           | \$ (265)                                                                                                                        |

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)***All Other Net Unrealized Investment Gains and Losses in AOCI*

|                                                                                                                                                    | Net Unrealized<br>Gains/(Losses) on<br>Investments(1) | Deferred Policy<br>Acquisition<br>Costs,<br>Deferred<br>Sales<br>Inducements,<br>and Value<br>of<br>Business<br>Acquired | Future<br>Policy<br>Benefits | Policyholders<br>Dividends | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>Related To<br>Net<br>Unrealized<br>Investment<br>Gains<br>(Losses) |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                    |                                                       |                                                                                                                          |                              | (in millions)              |                                                  |                                                                                                                              |
| Balance, December 31, 2010                                                                                                                         | \$ 9,261                                              | \$ (923)                                                                                                                 | \$ (901)                     | \$ (2,454)                 | \$ (1,514)                                       | \$ 3,469                                                                                                                     |
| Net investment gains (losses) on investments arising during the period                                                                             | (1,183)                                               |                                                                                                                          |                              |                            | 437                                              | (746)                                                                                                                        |
| Reclassification adjustment for (gains) losses included in net income                                                                              | 82                                                    |                                                                                                                          |                              |                            | (29)                                             | 53                                                                                                                           |
| Reclassification adjustment for OTTI losses excluded from net income(2)                                                                            | 9                                                     |                                                                                                                          |                              |                            | (3)                                              | 6                                                                                                                            |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired |                                                       | 99                                                                                                                       |                              |                            | (35)                                             | 64                                                                                                                           |
| Impact of net unrealized investment (gains) losses on future policy benefits                                                                       |                                                       |                                                                                                                          | 31                           |                            | (11)                                             | 20                                                                                                                           |
| Impact of net unrealized investment (gains) losses on policyholders dividends                                                                      |                                                       |                                                                                                                          |                              | (9)                        | 3                                                | (6)                                                                                                                          |
| Balance, March 31, 2011                                                                                                                            | \$ 8,169                                              | \$ (824)                                                                                                                 | \$ (870)                     | \$ (2,463)                 | \$ (1,152)                                       | \$ 2,860                                                                                                                     |

(1) Includes cash flow hedges. See Note 14 for information on cash flow hedges.

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

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

|                                                                     | March 31,<br>2011 | December 31,<br>2010 |
|---------------------------------------------------------------------|-------------------|----------------------|
|                                                                     |                   | (in millions)        |
| Fixed maturity securities on which an OTTI loss has been recognized | \$ (726)          | \$ (849)             |
| Fixed maturity securities, available for sale all other             | 6,808             | 8,078                |
| Equity securities, available for sale                               | 1,553             | 1,272                |
| Derivatives designated as cash flow hedges(1)                       | (321)             | (262)                |
| Other investments(2)                                                | 129               | 173                  |

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|                                              |          |          |
|----------------------------------------------|----------|----------|
| Net unrealized gains (losses) on investments | \$ 7,443 | \$ 8,412 |
|----------------------------------------------|----------|----------|

- (1) See Note 14 for more information on cash flow hedges.
- (2) Includes \$146 million of net unrealized losses on held to maturity securities that were transferred from available for sale as of March 31, 2011. Also includes net unrealized gains on certain joint ventures that are strategic in nature and are included in Other assets.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Duration of Gross Unrealized Loss Positions for Fixed Maturities***

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

|                                                                                      | Less than twelve months |                               | March 31, 2011<br>Twelve months or more |                               | Total      |                               |
|--------------------------------------------------------------------------------------|-------------------------|-------------------------------|-----------------------------------------|-------------------------------|------------|-------------------------------|
|                                                                                      | Fair Value              | Gross<br>Unrealized<br>Losses | Fair Value                              | Gross<br>Unrealized<br>Losses | Fair Value | Gross<br>Unrealized<br>Losses |
|                                                                                      |                         |                               | (in millions)                           |                               |            |                               |
| Fixed maturities(1)                                                                  |                         |                               |                                         |                               |            |                               |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 5,038                | \$ 353                        | \$ 405                                  | \$ 104                        | \$ 5,443   | \$ 457                        |
| Obligations of U.S. states and their political subdivisions                          | 1,403                   | 73                            | 54                                      | 5                             | 1,457      | 78                            |
| Foreign government bonds                                                             | 16,957                  | 160                           | 119                                     | 20                            | 17,076     | 180                           |
| Corporate securities                                                                 | 24,590                  | 568                           | 9,450                                   | 1,594                         | 34,040     | 2,162                         |
| Commercial mortgage-backed securities                                                | 1,340                   | 13                            | 320                                     | 47                            | 1,660      | 60                            |
| Asset-backed securities                                                              | 1,274                   | 13                            | 5,302                                   | 1,466                         | 6,576      | 1,479                         |
| Residential mortgage-backed securities                                               | 1,140                   | 21                            | 406                                     | 56                            | 1,546      | 77                            |
| Total                                                                                | \$ 51,742               | \$ 1,201                      | \$ 16,056                               | \$ 3,292                      | \$ 67,798  | \$ 4,493                      |

(1) Includes \$803 million of fair value and \$74 million of gross unrealized losses at March 31, 2011 on securities classified as held to maturity, a portion of which are not reflected in Accumulated other comprehensive income (loss).

|                                                                                      | Less than twelve months |                               | December 31, 2010<br>Twelve months or more |                               | Total      |                               |
|--------------------------------------------------------------------------------------|-------------------------|-------------------------------|--------------------------------------------|-------------------------------|------------|-------------------------------|
|                                                                                      | Fair Value              | Gross<br>Unrealized<br>Losses | Fair Value                                 | Gross<br>Unrealized<br>Losses | Fair Value | Gross<br>Unrealized<br>Losses |
| (in millions)                                                                        |                         |                               |                                            |                               |            |                               |
| Fixed maturities(1)                                                                  |                         |                               |                                            |                               |            |                               |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 3,677                | \$ 207                        | \$ 422                                     | \$ 88                         | \$ 4,099   | \$ 295                        |
| Obligations of U.S. states and their political subdivisions                          | 1,273                   | 60                            | 53                                         | 6                             | 1,326      | 66                            |
| Foreign government bonds                                                             | 2,599                   | 76                            | 125                                        | 19                            | 2,724      | 95                            |
| Corporate securities                                                                 | 12,385                  | 460                           | 9,982                                      | 1,596                         | 22,367     | 2,056                         |
| Commercial mortgage-backed securities                                                | 552                     | 9                             | 350                                        | 60                            | 902        | 69                            |
| Asset-backed securities                                                              | 1,365                   | 16                            | 5,499                                      | 1,667                         | 6,864      | 1,683                         |
| Residential mortgage-backed securities                                               | 897                     | 17                            | 447                                        | 55                            | 1,344      | 72                            |

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|       |           |        |           |          |           |          |
|-------|-----------|--------|-----------|----------|-----------|----------|
| Total | \$ 22,748 | \$ 845 | \$ 16,878 | \$ 3,491 | \$ 39,626 | \$ 4,336 |
|-------|-----------|--------|-----------|----------|-----------|----------|

- (1) Includes \$590 million of fair value and \$68 million of gross unrealized losses at December 31, 2010 on securities classified as held to maturity, a portion of which are not reflected in Accumulated other comprehensive income (loss).

The gross unrealized losses at March 31, 2011 and December 31, 2010 are composed of \$3,278 million and \$2,950 million related to high or highest quality securities based on NAIC or equivalent rating and \$1,215 million and \$1,386 million, related to other than high or highest quality securities based on NAIC or equivalent

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rating, respectively. At March 31, 2011, \$2,264 million of the gross unrealized losses represented declines in value of greater than 20%, \$461 million of which had been in that position for less than six months, as compared to \$2,238 million at December 31, 2010 that represented declines in value of greater than 20%, \$386 million of which had been in that position for less than six months. At March 31, 2011, the \$3,292 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, services, and finance sectors of the Company's corporate securities. At December 31, 2010, the \$3,491 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, finance, and services sectors of the Company's corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at March 31, 2011 or December 31, 2010. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts. At March 31, 2011, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

***Duration of Gross Unrealized Loss Positions for Equity Securities***

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

|                                       | Less than twelve months |                         | March 31, 2011<br>Twelve months or more |                         | Total      |                         |
|---------------------------------------|-------------------------|-------------------------|-----------------------------------------|-------------------------|------------|-------------------------|
|                                       | Fair Value              | Gross Unrealized Losses | Fair Value                              | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|                                       |                         |                         | (in millions)                           |                         |            |                         |
| Equity securities, available for sale | \$ 1,699                | \$ 80                   | \$ 327                                  | \$ 33                   | \$ 2,026   | \$ 113                  |

|                                       | Less than twelve months |                         | December 31, 2010<br>Twelve months or more |                         | Total      |                         |
|---------------------------------------|-------------------------|-------------------------|--------------------------------------------|-------------------------|------------|-------------------------|
|                                       | Fair Value              | Gross Unrealized Losses | Fair Value                                 | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|                                       |                         |                         | (in millions)                              |                         |            |                         |
| Equity securities, available for sale | \$ 1,098                | \$ 87                   | \$ 326                                     | \$ 34                   | \$ 1,424   | \$ 121                  |

At March 31, 2011, \$26 million of the gross unrealized losses represented declines in value of greater than 20%, \$11 million of which had been in that position for less than six months. At December 31, 2010, \$35 million of the gross unrealized losses represented declines in value of greater than 20%, \$18 million of which had been in that position for less than six months. Perpetual preferred securities have characteristics of both debt and equity securities. Since an impairment model similar to fixed maturity securities is applied to these securities, an other-than-temporary impairment has not been recognized on certain perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of March 31, 2011 and December 31, 2010. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at March 31, 2011 or

December 31, 2010.

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**PRUDENTIAL FINANCIAL, INC.**

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

**5. VARIABLE INTEREST ENTITIES**

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

If the Company determines that it is the VIE's primary beneficiary, it consolidates the VIE. There are currently two models for determining whether or not the Company is the primary beneficiary of a VIE. The first relates to those VIEs that have the characteristics of an investment company and for which certain other conditions are true. These conditions are that (1) the Company does not have the implicit or explicit obligation to fund losses of the VIE and (2) the VIE is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualified special-purpose entity. In this model the Company is the primary beneficiary if it stands to absorb a majority of the VIE's expected losses or to receive a majority of the VIE's expected residual returns and would be required to consolidate the VIE.

For all other VIEs, the Company is the primary beneficiary if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. If both conditions are present the Company would be required to consolidate the VIE.

***Consolidated Variable Interest Entities for which the Company is the Sponsor***

The Company is the sponsor of certain asset-backed investment vehicles (commonly referred to as collateralized debt obligations, or "CDOs" ) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures which the Company's asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company sells or syndicates investments through these vehicles, principally as part of the proprietary investing activity of the Company's asset management businesses. Additionally, the Company may invest in debt or equity securities issued by these vehicles. CDOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company analyzes these relationships to determine whether it has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant and thus is the primary beneficiary. This analysis includes a review of (1) the Company's rights and responsibilities as sponsor, (2) fees received by the Company and (3) other interests (if any) held by the Company. The Company is not required to provide, and has not provided, material financial or other support to any VIE for which it is the sponsor.

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The Company has determined that it is the primary beneficiary of certain VIEs that it sponsors, including one CDO and certain other investment structures, as it meets both conditions listed above. The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs for which the Company is the sponsor are reported. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIE.

|                                               | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-----------------------------------------------|---------------------------|------------------------------|
|                                               | <b>(in millions)</b>      |                              |
| Fixed maturities, available for sale          | \$ 48                     | \$ 49                        |
| Commercial mortgage and other loans           | 326                       | 341                          |
| Other long-term investments                   | 16                        | 17                           |
| Short-term investments                        | 10                        | 0                            |
| Cash and cash equivalents                     | 103                       | 84                           |
| Accrued investment income                     | 1                         | 1                            |
| Other assets                                  | 3                         | 3                            |
| Separate account assets                       | 4                         | 4                            |
| <b>Total assets of consolidated VIEs</b>      | <b>\$ 511</b>             | <b>\$ 499</b>                |
| Other liabilities                             | \$ 380                    | \$ 379                       |
| Separate account liabilities                  | 4                         | 4                            |
| <b>Total liabilities of consolidated VIEs</b> | <b>\$ 384</b>             | <b>\$ 383</b>                |

The Company also consolidates a VIE whose beneficial interests are wholly-owned by consolidated subsidiaries. This VIE is not included in the table above and the Company does not currently intend to sell these beneficial interests to third parties.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Other Consolidated Variable Interest Entities***

The Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities. Included among these structured investments are structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company's involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial or other support that was not contractually required to these VIEs. The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs for which the Company is not the sponsor are reported. These liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of each consolidated VIE have recourse only to the assets of that VIE.

|                                                         | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---------------------------------------------------------|---------------------------|------------------------------|
|                                                         | <b>(in millions)</b>      |                              |
| Fixed maturities, available for sale                    | \$ 128                    | \$ 136                       |
| Fixed maturities, held to maturity                      | 1,106                     | 1,130                        |
| Trading account assets supporting insurance liabilities | 9                         | 9                            |
| Other long-term investments                             | 201                       | (119)                        |
| Cash and cash equivalents                               | (2)                       | (2)                          |
| Accrued investment income                               | 4                         | 5                            |
| Other assets                                            | 1                         | 0                            |
| <br>Total assets of consolidated VIEs                   | <br>\$ 1,447              | <br>\$ 1,159                 |
| <br>Other liabilities                                   | <br>\$ 13                 | <br>\$ 0                     |
| <br>Total liabilities of consolidated VIEs              | <br>\$ 13                 | <br>\$ 0                     |

In addition, not reflected in the table above, the Company has created a trust that is a VIE, to facilitate Prudential Insurance's Funding Agreement Notes Issuance Program (FANIP). The trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance with the proceeds of such notes. The trust is the beneficiary of an indemnity agreement with the Company that provides that the Company is responsible for costs related to the notes issued with limited exception. As a result, the Company has determined that it is the primary beneficiary of the trust, which is therefore consolidated.

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust's medium-term note liability of \$3,548 million and \$3,509 million at March 31, 2011 and December 31, 2010, respectively, is classified within Policyholders' account balances. Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support that was not contractually required to the trust.

*Unconsolidated Variable Interest Entities*

The Company has determined that it is not the primary beneficiary of certain VIEs that it sponsors, including certain CDOs and other investment structures, as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company's maximum exposure to loss resulting from its

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**PRUDENTIAL FINANCIAL, INC.**

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

relationship with unconsolidated VIEs it sponsors is limited to its investment in the VIEs, which was \$512 million and \$506 million at March 31, 2011 and December 31, 2010. These investments are reflected in Fixed maturities, available for sale, Other trading account assets, at fair value and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was \$9,207 million and \$8,979 million as of March 31, 2011 and December 31, 2010, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company's balance sheet.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as Other long-term investments and its maximum exposure to loss associated with these entities was \$4,515 million and \$3,535 million as of March 31, 2011 and December 31, 2010, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the sponsor. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 4 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE's portfolio of assets and related investment activity. The market value of these VIEs was approximately \$5.3 billion and \$5.0 billion as of March 31, 2011 and December 31, 2010, respectively, and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available for sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. The Company's variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company's maximum exposure to loss from these interests was \$786 million and \$754 million at March 31, 2011 and December 31, 2010, respectively, which includes the fair value of the embedded derivatives.

**6. CLOSED BLOCK**

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

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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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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 may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to stockholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

The excess of Closed Block Liabilities over Closed Block Assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in Accumulated other comprehensive income (loss) ) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings.

As of March 31, 2011 and December 31, 2010, the Company recognized a policyholder dividend obligation of \$156 million and \$126 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block were reflected as a policyholder dividend obligation of \$2,150 million and \$2,117 million at March 31, 2011 and December 31, 2010, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss). See the table below for changes in the components of the policyholder dividend obligation for the three months ended March 31, 2011.

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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:

|                                                                                               | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-----------------------------------------------------------------------------------------------|---------------------------|------------------------------|
|                                                                                               | <b>(in millions)</b>      |                              |
| <b>Closed Block Liabilities</b>                                                               |                           |                              |
| Future policy benefits                                                                        | \$ 51,484                 | \$ 51,632                    |
| Policyholders' dividends payable                                                              | 948                       | 909                          |
| Policyholders' dividend obligation                                                            | 2,306                     | 2,243                        |
| Policyholders' account balances                                                               | 5,519                     | 5,536                        |
| Other Closed Block liabilities                                                                | 4,876                     | 4,637                        |
| <b>Total Closed Block Liabilities</b>                                                         | <b>65,133</b>             | <b>64,957</b>                |
| <b>Closed Block Assets</b>                                                                    |                           |                              |
| Fixed maturities, available for sale, at fair value                                           | 40,717                    | 41,044                       |
| Other trading account assets, at fair value                                                   | 152                       | 150                          |
| Equity securities, available for sale, at fair value                                          | 3,775                     | 3,545                        |
| Commercial mortgage and other loans                                                           | 8,010                     | 7,827                        |
| Policy loans                                                                                  | 5,346                     | 5,377                        |
| Other long-term investments                                                                   | 1,707                     | 1,662                        |
| Short-term investments                                                                        | 875                       | 1,119                        |
| <b>Total investments</b>                                                                      | <b>60,582</b>             | <b>60,724</b>                |
| Cash and cash equivalents                                                                     | 397                       | 345                          |
| Accrued investment income                                                                     | 626                       | 600                          |
| Other Closed Block assets                                                                     | 519                       | 275                          |
| <b>Total Closed Block Assets</b>                                                              | <b>62,124</b>             | <b>61,944</b>                |
| <b>Excess of reported Closed Block Liabilities over Closed Block Assets</b>                   | <b>3,009</b>              | <b>3,013</b>                 |
| Portion of above representing accumulated other comprehensive income:                         |                           |                              |
| Net unrealized investment gains (losses)                                                      | 2,127                     | 2,092                        |
| Allocated to policyholder dividend obligation                                                 | (2,150)                   | (2,117)                      |
| <b>Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities</b> | <b>\$ 2,986</b>           | <b>\$ 2,988</b>              |

Information regarding the policyholder dividend obligation is as follows:

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|                                                                                                  | <b>Three Months Ended<br/>March 31, 2011<br/>(in millions)</b> |       |
|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------|-------|
| Balance, January 1                                                                               | \$                                                             | 2,243 |
| Impact from earnings allocable to policyholder dividend obligation                               |                                                                | 30    |
| Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation |                                                                | 33    |
| Balance, March 31                                                                                | \$                                                             | 2,306 |

**Table of Contents****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, 2011 and 2010 were as follows:

|                                                                                                                   | <b>Three Months Ended<br/>March 31,</b> |             |
|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                                   | <b>2011</b>                             | <b>2010</b> |
|                                                                                                                   | <b>(in millions)</b>                    |             |
| <b>Revenues</b>                                                                                                   |                                         |             |
| Premiums                                                                                                          | \$ 691                                  | \$ 711      |
| Net investment income                                                                                             | 748                                     | 735         |
| Realized investment gains (losses), net                                                                           | 30                                      | 278         |
| Other income                                                                                                      | 16                                      | 7           |
| Total Closed Block revenues                                                                                       | 1,485                                   | 1,731       |
| <b>Benefits and Expenses</b>                                                                                      |                                         |             |
| Policyholders' benefits                                                                                           | 814                                     | 840         |
| Interest credited to policyholders' account balances                                                              | 34                                      | 35          |
| Dividends to policyholders                                                                                        | 517                                     | 491         |
| General and administrative expenses                                                                               | 132                                     | 139         |
| Total Closed Block benefits and expenses                                                                          | 1,497                                   | 1,505       |
| Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations | (12)                                    | 226         |
| Income tax expense (benefit)                                                                                      | (14)                                    | (26)        |
| Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations | 2                                       | 252         |
| Income from discontinued operations, net of taxes                                                                 | 0                                       | 0           |
| Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations        | \$ 2                                    | \$ 252      |

**7. EQUITY**

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

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|                                      | Issued | Common Stock<br>Held In<br>Treasury | Outstanding<br>(in millions) | Class B Stock<br>Issued and<br>Outstanding |
|--------------------------------------|--------|-------------------------------------|------------------------------|--------------------------------------------|
| Balance, December 31, 2010           | 660.1  | 176.3                               | 483.8                        | 2.0                                        |
| Common Stock issued                  | 0.0    | 0.0                                 | 0.0                          | 0.0                                        |
| Common Stock acquired                | 0.0    | 0.0                                 | 0.0                          | 0.0                                        |
| Stock-based compensation programs(1) | 0.0    | (1.8)                               | 1.8                          | 0.0                                        |
| Balance, March 31, 2011              | 660.1  | 174.5                               | 485.6                        | 2.0                                        |

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Comprehensive Income***

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

|                                                                        | <b>Three Months<br/>Ended March 31,<br/>2011      2010<br/>(in millions)</b> |          |
|------------------------------------------------------------------------|------------------------------------------------------------------------------|----------|
| Net income                                                             | \$ 633                                                                       | \$ 671   |
| Other comprehensive income (loss), net of taxes:                       |                                                                              |          |
| Change in foreign currency translation adjustments                     | 131                                                                          | (35)     |
| Change in net unrealized investments gains (losses)(1)                 | (550)                                                                        | 1,078    |
| Change in pension and postretirement unrecognized net periodic benefit | 11                                                                           | 20       |
| Other comprehensive income (loss)(2)                                   | (408)                                                                        | 1,063    |
| Comprehensive income                                                   | 225                                                                          | 1,734    |
| Comprehensive (income) loss attributable to noncontrolling interests   | (31)                                                                         | 26       |
| Comprehensive income attributable to Prudential Financial, Inc.        | \$ 194                                                                       | \$ 1,760 |

(1) Includes cash flow hedges of \$(39) million and \$40 million for the three months ended March 31, 2011 and 2010, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

(2) Amounts are net of tax expense (benefit) of \$(307) million and \$524 million for the three months ended March 31, 2011 and 2010, respectively.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the three months ended March 31, 2011 and 2010 are as follows (net of taxes):

| <b>Accumulated Other Comprehensive Income (Loss) Attributable to<br/>Prudential Financial, Inc.</b> |                                                        |                                                            |                                                                                                    |                                                                            |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
|                                                                                                     | <b>Foreign Currency<br/>Translation<br/>Adjustment</b> | <b>Net Unrealized<br/>Investment Gains<br/>(Losses)(1)</b> | <b>Pension and<br/>Postretirement<br/>Unrecognized<br/>Net<br/>Periodic<br/>Benefit<br/>(Cost)</b> | <b>Total<br/>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> |
|                                                                                                     |                                                        |                                                            | (in millions)                                                                                      |                                                                            |
| Balance, December 31, 2010                                                                          | \$ 1,145                                               | \$ 3,145                                                   | \$ (1,312)                                                                                         | \$ 2,978                                                                   |
| Change in component during period                                                                   | 125                                                    | (550)                                                      | 11                                                                                                 | (414)                                                                      |
| Balance, March 31, 2011                                                                             | \$ 1,270                                               | \$ 2,595                                                   | \$ (1,301)                                                                                         | \$ 2,564                                                                   |

| <b>Accumulated Other Comprehensive Income (Loss) Attributable to<br/>Prudential Financial, Inc.</b> |                                                            |                                                                    |                                                                                                |                                                                        |
|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
|                                                                                                     | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustment</b> | <b>Net<br/>Unrealized<br/>Investment<br/>Gains<br/>(Losses)(1)</b> | <b>Pension and<br/>Postretirement<br/>Unrecognized Net<br/>Periodic<br/>Benefit<br/>(Cost)</b> | <b>Total Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> |
|                                                                                                     |                                                            |                                                                    | (in millions)                                                                                  |                                                                        |
| Balance, December 31, 2009                                                                          | \$ 674                                                     | \$ 511                                                             | \$ (1,628)                                                                                     | \$ (443)                                                               |
| Change in component during period                                                                   | (35)                                                       | 1,078                                                              | 20                                                                                             | 1,063                                                                  |
| Balance, March 31, 2010                                                                             | \$ 639                                                     | \$ 1,589                                                           | \$ (1,608)                                                                                     | \$ 620                                                                 |

- (1) Includes cash flow hedges \$(208) million and \$(169) million as of March 31, 2011 and December 31, 2010, respectively, and \$(165) million and \$(205) million as of March 31, 2010 and December 31, 2009, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

**8. EARNINGS PER SHARE**

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

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separately for each of these two classes of common stock.

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

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Common Stock**

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

|                                                                                                                                                         | Three Months Ended March 31,            |                                       |                     |        |                                       |                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------------------------------|---------------------|--------|---------------------------------------|---------------------|
|                                                                                                                                                         | Income                                  | 2011<br>Weighted<br>Average<br>Shares | Per Share<br>Amount | Income | 2010<br>Weighted<br>Average<br>Shares | Per Share<br>Amount |
|                                                                                                                                                         | (in millions, except per share amounts) |                                       |                     |        |                                       |                     |
| Basic earnings per share                                                                                                                                |                                         |                                       |                     |        |                                       |                     |
| Income from continuing operations attributable to the Financial Services Businesses                                                                     | \$ 600                                  |                                       |                     | \$ 507 |                                       |                     |
| Direct equity adjustment                                                                                                                                | 9                                       |                                       |                     | 10     |                                       |                     |
| Less: Income (loss) attributable to noncontrolling interests                                                                                            | 25                                      |                                       |                     | (26)   |                                       |                     |
| Less: Earnings allocated to participating unvested share-based payment awards                                                                           | 8                                       |                                       |                     | 7      |                                       |                     |
| Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment | \$ 576                                  | 484.9                                 | \$ 1.19             | \$ 536 | 463.0                                 | \$ 1.16             |
| Effect of dilutive securities and compensation programs                                                                                                 |                                         |                                       |                     |        |                                       |                     |
| Add: Earnings allocated to participating unvested share-based payment awards Basic                                                                      | \$ 8                                    |                                       |                     | \$ 7   |                                       |                     |
| Less: Earnings allocated to participating unvested share-based payment awards Diluted                                                                   | 8                                       |                                       |                     | 7      |                                       |                     |
| Stock options                                                                                                                                           |                                         | 3.5                                   |                     |        | 2.9                                   |                     |
| Deferred and long-term compensation programs                                                                                                            |                                         | 0.4                                   |                     |        | 0.5                                   |                     |
| Exchangeable Surplus Notes                                                                                                                              | 4                                       | 5.1                                   |                     | 4      | 5.1                                   |                     |
| Diluted earnings per share                                                                                                                              |                                         |                                       |                     |        |                                       |                     |
| Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment | \$ 580                                  | 493.9                                 | \$ 1.17             | \$ 540 | 471.5                                 | \$ 1.15             |

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended March 31, 2011 and 2010 were based on 6.5 million and 5.8 million of such awards, respectively, weighted for the period they were outstanding. The computation of earnings per share of Common Stock excludes the dilutive impact of participating unvested share-based awards based on the application of the two-class method.

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For the three months ended March 31, 2011 and 2010, 9.0 million and 10.9 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of \$76.10

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and \$71.29 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.

In September 2009, the Company issued \$500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The exchange rate used in the diluted earnings per share calculation for the surplus notes is 10.1235 shares of Common Stock per each \$1,000 principal amount of surplus notes. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, is added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive.

***Class B Stock***

Income from continuing operations per share of Class B Stock for the three months ended March 31, are presented below. There are no potentially dilutive shares associated with the Class B Stock.

|                                                                                                                                                  | Three Months Ended March 31, |                                       |                     |        |                                       |                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------------------------|---------------------|--------|---------------------------------------|---------------------|
|                                                                                                                                                  | Income                       | 2011<br>Weighted<br>Average<br>Shares | 2010                |        | 2010<br>Weighted<br>Average<br>Shares | Per Share<br>Amount |
|                                                                                                                                                  |                              |                                       | Per Share<br>Amount | Income |                                       |                     |
| (in millions, except per share amounts)                                                                                                          |                              |                                       |                     |        |                                       |                     |
| Basic earnings per share                                                                                                                         |                              |                                       |                     |        |                                       |                     |
| Income from continuing operations attributable to the Closed Block Business                                                                      | \$ 19                        |                                       |                     | \$ 161 |                                       |                     |
| Less: Direct equity adjustment                                                                                                                   | 9                            |                                       |                     | 10     |                                       |                     |
|                                                                                                                                                  |                              |                                       |                     |        |                                       |                     |
| Income from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment | \$ 10                        | 2.0                                   | \$ 5.00             | \$ 151 | 2.0                                   | \$ 75.50            |

**9. SHORT-TERM AND LONG-TERM DEBT*****Commercial Paper***

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The Company issues commercial paper under the two programs described below. At March 31, 2011 and December 31, 2010, the weighted average maturity of total commercial paper outstanding was 19 and 34 days, respectively.

Prudential Financial has a commercial paper program with an authorized capacity of \$3.0 billion. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of Prudential Financial's subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC, a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program with an authorized capacity of \$7.0 billion. Prudential Funding commercial paper borrowings generally have served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance. Prudential Financial has issued a subordinated guarantee covering Prudential Funding's commercial paper program.

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The table below presents the Company's total outstanding commercial paper borrowings as of the dates indicated:

|                                                      | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------|---------------------------|------------------------------|
|                                                      | <b>(in millions)</b>      |                              |
| Prudential Financial                                 | \$ 291                    | \$ 283                       |
| Prudential Funding, LLC                              | 1,168                     | 874                          |
| <b>Total outstanding commercial paper borrowings</b> | <b>\$ 1,459</b>           | <b>\$ 1,157</b>              |

***Federal Home Loan Bank of New York***

Prudential Insurance is a member of the Federal Home Loan Bank of New York or FHLBNY. Membership allows Prudential Insurance access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements that can be used as an alternative source of liquidity. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings, depending on the type of asset pledged. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if Prudential Insurance's financial strength ratings decline below A/A2/A Stable by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance, or NJDOBI, regarding Prudential Insurance's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY.

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance's statutory net admitted assets as of December 31, 2010, the 5% limitation equates to a maximum amount of pledged assets of \$7.4 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately \$6.1 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at Prudential Insurance.

As of March 31, 2011, Prudential Insurance had pledged qualifying assets with a fair value of \$2.7 billion, which supported outstanding collateralized advances of \$1.0 billion and collateralized funding agreements of \$1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to \$5.5 billion as of March 31, 2011.

As of March 31, 2011, \$275 million of the FHLBNY outstanding advances is reflected in Short-term debt and matures in December 2011 and the remaining \$725 million is in Long-term debt and matures in December 2015. The funding agreements issued to the FHLBNY, which are reflected in Policyholders' account balances, have priority claim status above debt holders of Prudential Insurance.

***Federal Home Loan Bank of Boston***

Prudential Retirement Insurance and Annuity Company, or PRIAC, became a member of the Federal Home Loan Bank of Boston or FHLBB, in December 2009. Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of

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**PRUDENTIAL FINANCIAL, INC.**

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

the obligation. PRIAC's membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of March 31, 2011, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to \$2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of March 31, 2011, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately \$1.1 billion.

Prudential Bank & Trust, FSB is also a member of FHLBB. As of March 31, 2011, Prudential Bank & Trust, FSB had advances of \$139 million outstanding under the FHLBB facility.

***Credit Facilities***

As of March 31, 2011, Prudential Financial, Prudential Insurance and Prudential Funding maintained an aggregate of \$4,108 million of unsecured committed credit facilities, which includes a \$1,250 million credit facility on which Prudential Financial is the sole borrower party. These facilities have remaining terms ranging from nine months to five years. There were no outstanding borrowings under these credit facilities as of March 31, 2011. Each of the facilities is available to the applicable borrowers up to the aggregate committed credit and may be used for general corporate purposes, including as backup liquidity for the Company's commercial paper programs discussed above. For additional information on these credit facilities, see Note 14 to the Company's Consolidated Financial Statements included in the 2010 Annual Report on Form 10-K.

***Star and Edison Acquisition***

On February 1, 2011, the Company completed the acquisition of the Star and Edison Businesses from AIG. In conjunction with this acquisition, the Company assumed ¥47.8 billion of long-term debt of which ¥32.5 billion and ¥5.3 billion are scheduled to mature in 2014 and 2026, respectively, and ¥10 billion of debt that does not have a stated maturity date. The carrying value of the debt at March 31, 2011 was \$489 million. The Star and Edison Businesses hold \$79 million of the Company's medium-term notes. As a result, the consolidation of the Star and Edison Businesses with the Company effects a \$79 million reduction of the Company's consolidated long-term debt.

***Surplus Notes***

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In March 2011, a subsidiary of Prudential Insurance entered into an agreement that provides for the issuance by that subsidiary of up to \$500 million of ten-year fixed rate surplus notes. At March 31, 2011, \$250 million of surplus notes were outstanding under this facility. Under the agreement, the subsidiary issuer received a debt security that is redeemable under certain circumstances including upon the occurrence of specified stress events affecting the subsidiary issuer. Interest and principal payments on the surplus notes and on the debt security will be settled on a net basis because valid rights of set-off exist. Also, Prudential Financial agreed that it or one of its affiliates will make capital contributions to the subsidiary issuer of the surplus notes to reimburse it for investment losses in excess of specified amounts. Surplus notes issued under this facility are subordinated to policyholder obligations, and the payment of interest and principal may only be made with the prior approval of the Arizona Department of Insurance.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****10. EMPLOYEE BENEFIT PLANS*****Pension and Other Postretirement Plans***

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

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

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

|                                                  | Three Months Ended March 31, |        |                               |       |
|--------------------------------------------------|------------------------------|--------|-------------------------------|-------|
|                                                  | Pension Benefits             |        | Other Postretirement Benefits |       |
|                                                  | 2011                         | 2010   | 2011                          | 2010  |
|                                                  | (in millions)                |        |                               |       |
| <b>Components of net periodic (benefit) cost</b> |                              |        |                               |       |
| Service cost                                     | \$ 50                        | \$ 45  | \$ 3                          | \$ 3  |
| Interest cost                                    | 120                          | 117    | 27                            | 28    |
| Expected return on plan assets                   | (180)                        | (186)  | (24)                          | (27)  |
| Amortization of prior service cost               | 6                            | 6      | (3)                           | (3)   |
| Amortization of actuarial (gain) loss, net       | 10                           | 10     | 9                             | 10    |
| Special termination benefits                     | 1                            | 1      | 0                             | 0     |
| Net periodic (benefit) cost(1)                   | \$ 7                         | \$ (7) | \$ 12                         | \$ 11 |

(1) Includes net periodic cost for pensions of \$4 million for the three months ended March 31, 2011 related to the Star and Edison acquisition.

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On February 1, 2011 Prudential Financial completed the acquisition of the Star and Edison Businesses. As a result of the acquisition, the Company expects that it will increase its cash contributions to the pension plans in 2011 by \$70 million from approximately \$110 million to \$180 million.

### 11. SEGMENT INFORMATION

#### *Segments*

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

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**PRUDENTIAL FINANCIAL, INC.**

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

On April 6, 2011, the Company entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. The transaction is expected to close in June 2011. As a result, the Company has reflected the results of the Global Commodities Business, which historically have been presented in the International Investments segment, as discontinued operations for all periods presented. In addition, the remaining business activities in the Company's International Investments segment have been reclassified and included in the International Insurance segment. The reclassification of the remaining international investment business activities to the International Insurance segment had no impact on total adjusted operating income or net income of the Financial Services Businesses or the Closed Block Business.

***Adjusted Operating Income***

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

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

realized investment gains (losses), net, and related charges and adjustments;

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

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

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

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

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Charges that relate to realized investment gains (losses), net, are also excluded from adjusted operating income. The related charges are associated with: policyholder dividends; amortization of deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements; interest credited to policyholders' account balances; reserves for future policy benefits; and payments associated with the market value adjustment features related to certain of the annuity products the Company sells. Prior to its final payment in the second quarter of 2010, the related charges associated with policyholder dividends included a percentage of the net increase in the fair value of specified assets included in Gibraltar Life's reorganization plan that was paid as a special dividend to Gibraltar Life policyholders. Deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements for certain products are amortized based on estimated gross profits, which include net realized investment gains and losses on the underlying invested assets including certain portions of the net realized investment gains and losses related to the embedded derivatives and related hedging positions associated with the living benefit features of certain products. The related charge for these items represents the portion of this amortization associated with net realized investment gains and losses. The related charges for interest credited to policyholders' account balances relate to certain group life policies that pass back certain realized investment gains and losses to the policyholder. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment. Certain of the Company's annuity products contain a market value adjustment feature that requires us to pay to the contractholder or entitles us to receive from the contractholder, upon surrender, a market value adjustment based on the crediting rates on the contract surrendered compared to crediting rates on newly issued contracts or based on an index rate at the time of purchase compared to an index rate at time of surrender, as applicable. These payments mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets. The related charge represents the payments or receipts associated with these market value adjustment features.

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

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

Adjusted operating income of the International Insurance segment reflects the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment's non-U.S. dollar denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segments' U.S. dollar equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP and, as noted above, all resulting profits or losses from such contracts are included in Realized investment gains (losses), net. When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income (net losses of \$38 million and \$19 million for the three months ended March 31, 2011 and 2010, respectively). As of March 31, 2011 and December 31, 2010, the fair value of open contracts used for this purpose were net liabilities of \$164 million and \$252 million, respectively.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the derivative contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in Realized investment gains (losses), net. However, the periodic swap settlements, as well as other derivative related yield adjustments, are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses recorded within Realized investment gains (losses), net are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Adjusted operating income includes net gains of \$64 million and \$70 million for the three months ended March 31, 2011 and 2010, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of \$12 million and \$7 million for the three months ended March 31, 2011 and 2010, respectively, related to certain derivative contracts that were terminated or offset in prior periods. The table below reflects the total deferred gain (loss) as of March 31, 2011, related to certain derivative contracts that were terminated or offset in prior periods that will be recognized in adjusted operating income in future periods for each segment, as well as the weighted average period over which these deferred amounts will be recognized.

|                                   | Deferred<br>Amount<br>(in<br>millions) | Weighted Average<br>Period |
|-----------------------------------|----------------------------------------|----------------------------|
| <b>Segment:</b>                   |                                        |                            |
| International Insurance           | \$ 699                                 | 29 years                   |
| Asset Management                  | 24                                     | 9 years                    |
| Corporate and Other               | (46)                                   | 6 years                    |
| <b>Total deferred gain (loss)</b> | <b>\$ 677</b>                          |                            |

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

The Company conducts certain activities for which Realized investment gains (losses), net are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company's Asset Management segment. For example, Asset Management's proprietary investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company's managed funds and structured products. The Realized investment gains (losses), net associated with the sale of these proprietary investments, as well as related derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the Realized investment gains (losses), net associated with loans originated by the Company's commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income. Net realized investment gains of \$27 million and losses of \$21 million for the three months ended March 31, 2011 and 2010, respectively, related to these and other businesses were included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the Company's statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income, and interest and dividend income for these

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investments is recorded in Net investment income. Consistent with the exclusion of realized investment gains and losses

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**PRUDENTIAL FINANCIAL, INC.**

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

with respect to other investments managed on a consistent basis, the net gains or losses on these investments, which is recorded within Asset management fees and other income, is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. The net impact of these adjustments was to exclude from adjusted operating income net gains of \$47 million and \$39 million, for the three months ended March 31, 2011 and 2010, respectively.

The Company has certain assets and liabilities for which, under GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company's capital funding strategies for its international subsidiaries, the change in value included in Asset management fees and other income is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. The net impact of these foreign currency related and certain other adjustments was to exclude from adjusted operating income net losses of \$204 million and \$57 million for the three months ended March 31, 2011 and 2010, respectively.

For the three months ended March 31, 2011, the Company recorded an out of period adjustment that decreased income from continuing operations before equity in earnings of operating joint ventures by \$95 million. The adjustment is related to the amortization of unrealized losses associated with U.S. dollar denominated collateralized mortgage-backed securities held by the Gibraltar Life operations that were reclassified from available for sale to held-to-maturity in December 2008. The adjustment, which had no impact on the carrying value of the U.S. dollar denominated collateralized mortgage-backed securities, resulted from amortizing the unrealized losses that existed when the securities were reclassified over a period greater than the expected effective duration of the securities. The adjustment does not impact current or prior period adjusted operating income of any segments and is included as a component of the foreign currency related and certain other adjustments discussed above.

In connection with the settlement of disputes arising out of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc. as described in Note 15, the Company has recorded additional losses of \$65 million in the first quarter of 2011 related to the unsecured portion of its counterparty exposure on derivative transactions it had previously held with Lehman Brothers and its affiliates. This loss is recorded within Asset management fees and other income within the Company's Corporate and Other operations and is excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net, which is consistent with the adjusted operating income treatment of similar credit-related losses that are recorded within Realized investment gains (losses), net. Any subsequent recoveries arising from this settlement will also be excluded from adjusted operating income.

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



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**PRUDENTIAL FINANCIAL, INC.**

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

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

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

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

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

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

|                                                                                                                                            | <b>Three Months Ended March 31,</b> |             |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------|
|                                                                                                                                            | <b>2011</b>                         | <b>2010</b> |
|                                                                                                                                            | <b>(in millions)</b>                |             |
| Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:                                                |                                     |             |
| Individual Annuities                                                                                                                       | \$ 292                              | \$ 244      |
| Retirement                                                                                                                                 | 172                                 | 169         |
| Asset Management                                                                                                                           | 154                                 | 83          |
| Total U.S. Retirement Solutions and Investment Management Division                                                                         | 618                                 | 496         |
| Individual Life                                                                                                                            | 96                                  | 91          |
| Group Insurance                                                                                                                            | 40                                  | 53          |
| Total U.S. Individual Life and Group Insurance Division                                                                                    | 136                                 | 144         |
| International Insurance                                                                                                                    | 672                                 | 491         |
| Total International Insurance Division                                                                                                     | 672                                 | 491         |
| Corporate Operations                                                                                                                       | (262)                               | (203)       |
| Real Estate and Relocation Services                                                                                                        | (10)                                | (7)         |
| Total Corporate and Other                                                                                                                  | (272)                               | (210)       |
| Adjusted Operating Income before income taxes for Financial Services Businesses                                                            | 1,154                               | 921         |
| Reconciling items:                                                                                                                         |                                     |             |
| Realized investment gains (losses), net, and related adjustments                                                                           | (356)                               | 67          |
| Charges related to realized investment gains (losses), net                                                                                 | (4)                                 | (127)       |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net                                                  | (17)                                | 252         |
| Change in experience-rated contractholder liabilities due to asset value changes                                                           | 34                                  | (320)       |
| Divested businesses                                                                                                                        | (1)                                 | (7)         |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests                                       | (133)                               | (36)        |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses | 677                                 | 750         |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business         | 27                                  | 259         |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures                                   | \$ 704                              | \$ 1,009    |

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

|                                                                                                      | <b>Three Months Ended March 31,</b> |                 |
|------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------|
|                                                                                                      | <b>2011</b>                         | <b>2010</b>     |
|                                                                                                      | <b>(in millions)</b>                |                 |
| <b>Financial Services Businesses:</b>                                                                |                                     |                 |
| Individual Annuities                                                                                 | \$ 898                              | \$ 759          |
| Retirement                                                                                           | 1,206                               | 1,129           |
| Asset Management                                                                                     | 548                                 | 379             |
| <b>Total U.S. Retirement Solutions and Investment Management Division</b>                            | <b>2,652</b>                        | <b>2,267</b>    |
| Individual Life                                                                                      | 725                                 | 687             |
| Group Insurance                                                                                      | 1,506                               | 1,311           |
| <b>Total U.S. Individual Life and Group Insurance Division</b>                                       | <b>2,231</b>                        | <b>1,998</b>    |
| <b>International Insurance</b>                                                                       | <b>4,328</b>                        | <b>2,947</b>    |
| <b>Total International Insurance Division</b>                                                        | <b>4,328</b>                        | <b>2,947</b>    |
| Corporate Operations                                                                                 | (54)                                | (65)            |
| Real Estate and Relocation Services                                                                  | 44                                  | 41              |
| <b>Total Corporate and Other</b>                                                                     | <b>(10)</b>                         | <b>(24)</b>     |
| <b>Total</b>                                                                                         | <b>9,201</b>                        | <b>7,188</b>    |
| <b>Reconciling items:</b>                                                                            |                                     |                 |
| Realized investment gains (losses), net, and related adjustments                                     | (356)                               | 67              |
| Charges related to realized investment gains (losses), net                                           | (34)                                | (44)            |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net            | (17)                                | 252             |
| Divested businesses                                                                                  | 3                                   | 2               |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (158)                               | (10)            |
| <b>Total Financial Services Businesses</b>                                                           | <b>8,639</b>                        | <b>7,455</b>    |
| <b>Closed Block Business</b>                                                                         | <b>1,547</b>                        | <b>1,792</b>    |
| <b>Total per Unaudited Interim Consolidated Financial Statements</b>                                 | <b>\$ 10,186</b>                    | <b>\$ 9,247</b> |

The Asset Management segment revenues include intersegment revenues primarily consisting of asset-based management and administration fees as follows:

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|                                                | Three Months Ended March 31, |       |
|------------------------------------------------|------------------------------|-------|
|                                                | 2011                         | 2010  |
|                                                | (in millions)                |       |
| Asset Management segment intersegment revenues | \$ 112                       | \$ 90 |

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other.

**Table of Contents****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 dates indicated:

|                                                                        | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------------------------|---------------------------|------------------------------|
|                                                                        | <b>(in millions)</b>      |                              |
| Individual Annuities                                                   | \$ 116,561                | \$ 108,879                   |
| Retirement                                                             | 132,011                   | 130,854                      |
| Asset Management                                                       | 33,852                    | 32,920                       |
| <br>Total U.S. Retirement Solutions and Investment Management Division | <br>282,424               | <br>272,653                  |
| Individual Life                                                        | 41,954                    | 41,131                       |
| Group Insurance                                                        | 35,819                    | 35,490                       |
| <br>Total U.S. Individual Life and Group Insurance Division            | <br>77,773                | <br>76,621                   |
| <br>International Insurance                                            | <br>154,650               | <br>103,097                  |
| <br>Total International Insurance Division                             | <br>154,650               | <br>103,097                  |
| Corporate Operations                                                   | 15,529                    | 19,090                       |
| Real Estate and Relocation Services                                    | 667                       | 685                          |
| <br>Total Corporate and Other                                          | <br>16,196                | <br>19,775                   |
| <br>Total Financial Services Businesses                                | <br>531,043               | <br>472,146                  |
| <br>Closed Block Business                                              | <br>67,965                | <br>67,708                   |
| <br>Total                                                              | <br>\$ 599,008            | <br>\$ 539,854               |

**12. INCOME TAXES**

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ( IRS ) or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ( tax attributes ), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The statute of limitations for the 2002 tax year expired on April 30, 2009. The statute of limitations for the 2003 tax year expired on July 31, 2009. The statute of limitations for the 2004 through 2007 tax years will expire in February 2012, unless extended. Tax years 2008 through 2010 are still open for IRS examination. The Company does not anticipate any significant changes

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within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The dividends received deduction ( DRD ) reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company's effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2010, current year results, and was adjusted to take into account the current year's equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company's taxable income before the DRD.

In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts.

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**PRUDENTIAL FINANCIAL, INC.**

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

In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new regulations the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On February 14, 2011, the Obama Administration released the General Explanations of the Administration's Revenue Proposals. Although the Administration has not released proposed statutory language, one proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulation or legislation, could increase actual tax expense and reduce the Company's consolidated net income. These activities had no impact on the Company's 2010 or first quarter 2011 results.

In December 2006, the IRS completed all fieldwork with respect to its examination of the consolidated federal income tax returns for tax years 2002 and 2003. The final report was initially submitted to the Joint Committee on Taxation for their review in April 2007. The final report was resubmitted in March 2008 and again in April 2008. The Joint Committee returned the report to the IRS for additional review of an industry issue regarding the methodology for calculating the DRD related to variable life insurance and annuity contracts. The IRS completed its review of the issue and proposed an adjustment with respect to the calculation of the DRD. In order to expedite receipt of an income tax refund related to the 2002 and 2003 tax years, the Company agreed to such adjustment. The report, with the adjustment to the DRD, was submitted to the Joint Committee on Taxation in October 2008. The Company was advised on January 2, 2009 that the Joint Committee completed its consideration of the report and took no exception to the conclusions reached by the IRS. Accordingly, the final report was processed and a \$157 million refund was received in February 2009. The Company believed that its return position with respect to the calculation of the DRD is technically correct. Therefore, the Company filed protective refund claims on October 1, 2009 to recover the taxes associated with the agreed upon adjustment. The IRS issued an Industry Director Directive (IDD) in May 2010 stating that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. The Company has received a refund of approximately \$3 million which represents the taxes associated with the previously agreed upon DRD adjustment plus interest. These activities had no impact on the Company's 2010 or first quarter 2011 results.

In January 2007, the IRS began an examination of tax years 2004 through 2006. For tax years 2007 through 2010, the Company is participating in the IRS's Compliance Assurance Program (CAP). Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management's expectation this program will shorten the time period between the filing of the Company's federal income tax returns and the IRS's completion of its examination of the returns.

The Company's affiliates in Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2010, South Korea's National Tax Service concluded a general tax audit of POK's tax years ending March 31, 2006 to March 31, 2010. These activities had no material impact on the Company's 2010 or first quarter 2011 results.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act, which was modified by the Health Care and Education Reconciliation Act of 2010 signed into law on March 30, 2010, (together, the Healthcare Act). The federal government provides a subsidy to companies that provide certain retiree prescription drug benefits (the Medicare Part D subsidy), including the Company. The Medicare Part D



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

subsidy was previously provided tax-free. However, as currently adopted, the Healthcare Act includes a provision that would reduce the tax deductibility of retiree health care costs to the extent of any Medicare Part D subsidy received. In effect, this provision of the Healthcare Act makes the Medicare Part D subsidy taxable beginning in 2013. Therefore, the Company incurred a charge in the first quarter of 2010 for the reduction of deferred tax assets of \$94 million, which reduces net income and is reflected in Income tax expense (benefit).

**13. FAIR VALUE OF ASSETS AND LIABILITIES**

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

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

**Level 2** Fair value is based on significant inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not actively trade and are priced based on a net asset value) and commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through comparison to trade data and internal estimates of current fair value, generally developed using market observable inputs and economic indicators.

**Level 3** Fair value is based on at least one or more significant unobservable inputs for the asset or liability. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the

Company's

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

understanding of the market, and are generally considered Level 3. Under certain conditions, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company may choose to over-ride the third-party pricing information or quotes received and apply internally- developed values to the related assets or liabilities. To the extent the internally-developed valuations use significant unobservable inputs, they are classified as Level 3. As of March 31, 2011 and December 31, 2010, these over-rides on a net basis were not material.

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

|                                                                                      | Level 1      | Level 2        | As of March 31, 2011<br>Level 3<br>(in millions) | Netting(2)     | Total          |
|--------------------------------------------------------------------------------------|--------------|----------------|--------------------------------------------------|----------------|----------------|
| <b>Fixed maturities, available for sale:</b>                                         |              |                |                                                  |                |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0         | \$ 12,104      | \$ 0                                             | \$             | \$ 12,104      |
| Obligations of U.S. states and their political subdivisions                          | 0            | 2,295          | 0                                                |                | 2,295          |
| Foreign government bonds                                                             | 0            | 63,490         | 27                                               |                | 63,517         |
| Corporate securities                                                                 | 6            | 117,242        | 1,697                                            |                | 118,945        |
| Asset-backed securities                                                              | 0            | 9,249          | 2,756                                            |                | 12,005         |
| Commercial mortgage-backed securities                                                | 0            | 13,302         | 143                                              |                | 13,445         |
| Residential mortgage-backed securities                                               | 0            | 9,485          | 21                                               |                | 9,506          |
| <b>Subtotal</b>                                                                      | <b>6</b>     | <b>227,167</b> | <b>4,644</b>                                     |                | <b>231,817</b> |
| <b>Trading account assets supporting insurance liabilities:</b>                      |              |                |                                                  |                |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0            | 322            | 0                                                |                | 322            |
| Obligations of U.S. states and their political subdivisions                          | 0            | 181            | 0                                                |                | 181            |
| Foreign government bonds                                                             | 0            | 625            | 0                                                |                | 625            |
| Corporate securities                                                                 | 0            | 10,187         | 109                                              |                | 10,296         |
| Asset-backed securities                                                              | 0            | 830            | 386                                              |                | 1,216          |
| Commercial mortgage-backed securities                                                | 0            | 2,422          | 5                                                |                | 2,427          |
| Residential mortgage-backed securities                                               | 0            | 1,455          | 3                                                |                | 1,458          |
| Equity securities                                                                    | 1,034        | 135            | 81                                               |                | 1,250          |
| Short-term investments and cash equivalents                                          | 484          | 55             | 0                                                |                | 539            |
| <b>Subtotal</b>                                                                      | <b>1,518</b> | <b>16,212</b>  | <b>584</b>                                       |                | <b>18,314</b>  |
| <b>Other trading account assets:</b>                                                 |              |                |                                                  |                |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0            | 160            | 0                                                |                | 160            |
| Obligations of U.S. states and their political subdivisions                          | 318          | 0              | 0                                                |                | 318            |
| Foreign government bonds                                                             | 1            | 39             | 0                                                |                | 40             |
| Corporate securities                                                                 | 4            | 271            | 38                                               |                | 313            |
| Asset-backed securities                                                              | 0            | 526            | 83                                               |                | 609            |
| Commercial mortgage-backed securities                                                | 0            | 82             | 21                                               |                | 103            |
| Residential mortgage-backed securities                                               | 0            | 166            | 16                                               |                | 182            |
| Equity securities                                                                    | 230          | 38             | 164                                              |                | 432            |
| All other activity                                                                   | 82           | 7,064          | 103                                              | (5,648)        | 1,601          |
| <b>Subtotal</b>                                                                      | <b>635</b>   | <b>8,346</b>   | <b>425</b>                                       | <b>(5,648)</b> | <b>3,758</b>   |
| Equity securities, available for sale                                                | 6,279        | 2,176          | 1,655                                            |                | 10,110         |
| Commercial mortgage and other loans                                                  | 0            | 94             | 178                                              |                | 272            |

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|                                            |           |            |           |            |            |
|--------------------------------------------|-----------|------------|-----------|------------|------------|
| Other long-term investments                | 41        | 8          | 804       |            | 853        |
| Short-term investments                     | 3,152     | 3,446      | 0         |            | 6,598      |
| Cash equivalents                           | 1,822     | 4,144      | 0         |            | 5,966      |
| Other assets                               | 3,306     | 79         | 9         |            | 3,394      |
| Subtotal excluding separate account assets | 16,759    | 261,672    | 8,299     | (5,648)    | 281,082    |
| Separate account assets(1)                 | 45,441    | 156,309    | 16,632    |            | 218,382    |
| Total assets                               | \$ 62,200 | \$ 417,981 | \$ 24,931 | \$ (5,648) | \$ 499,464 |
| Future policy benefits                     | \$ 0      | \$ 0       | \$ (694)  | \$         | \$ (694)   |
| Long-term debt                             | 0         | 0          | 0         |            | 0          |
| Other liabilities                          | 0         | 6,793      | 3         | (5,557)    | 1,239      |
| Total liabilities                          | \$ 0      | \$ 6,793   | \$ (691)  | \$ (5,557) | \$ 545     |

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|                                                                                      | As of December 31, 2010(3) |            |           |            |            |
|--------------------------------------------------------------------------------------|----------------------------|------------|-----------|------------|------------|
|                                                                                      | Level 1                    | Level 2    | Level 3   | Netting(2) | Total      |
|                                                                                      | (in millions)              |            |           |            |            |
| Fixed maturities, available for sale:                                                |                            |            |           |            |            |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                       | \$ 11,298  | \$ 0      | \$         | \$ 11,298  |
| Obligations of U.S. states and their political subdivisions                          | 0                          | 2,231      | 0         |            | 2,231      |
| Foreign government bonds                                                             | 0                          | 50,212     | 27        |            | 50,239     |
| Corporate securities                                                                 | 5                          | 97,025     | 1,187     |            | 98,217     |
| Asset-backed securities                                                              | 0                          | 9,238      | 1,753     |            | 10,991     |
| Commercial mortgage-backed securities                                                | 0                          | 11,907     | 130       |            | 12,037     |
| Residential mortgage-backed securities                                               | 0                          | 9,947      | 23        |            | 9,970      |
| Subtotal                                                                             | 5                          | 191,858    | 3,120     |            | 194,983    |
| Trading account assets supporting insurance liabilities:                             |                            |            |           |            |            |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                          | 266        | 0         |            | 266        |
| Obligations of U.S. states and their political subdivisions                          | 0                          | 182        | 0         |            | 182        |
| Foreign government bonds                                                             | 0                          | 569        | 0         |            | 569        |
| Corporate securities                                                                 | 0                          | 10,036     | 82        |            | 10,118     |
| Asset-backed securities                                                              | 0                          | 804        | 226       |            | 1,030      |
| Commercial mortgage-backed securities                                                | 0                          | 2,402      | 5         |            | 2,407      |
| Residential mortgage-backed securities                                               | 0                          | 1,345      | 18        |            | 1,363      |
| Equity securities                                                                    | 935                        | 200        | 4         |            | 1,139      |
| Short-term investments and cash equivalents                                          | 606                        | 91         | 0         |            | 697        |
| Subtotal                                                                             | 1,541                      | 15,895     | 335       |            | 17,771     |
| Other trading account assets:                                                        |                            |            |           |            |            |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                          | 96         | 0         |            | 96         |
| Obligations of U.S. states and their political subdivisions                          | 118                        | 0          | 0         |            | 118        |
| Foreign government bonds                                                             | 1                          | 24         | 0         |            | 25         |
| Corporate securities                                                                 | 14                         | 269        | 35        |            | 318        |
| Asset-backed securities                                                              | 0                          | 607        | 54        |            | 661        |
| Commercial mortgage-backed securities                                                | 0                          | 84         | 19        |            | 103        |
| Residential mortgage-backed securities                                               | 0                          | 163        | 18        |            | 181        |
| Equity securities                                                                    | 393                        | 142        | 26        |            | 561        |
| All other                                                                            | 33                         | 7,899      | 134       | (5,904)    | 2,162      |
| Subtotal                                                                             | 559                        | 9,284      | 286       | (5,904)    | 4,225      |
| Equity securities, available for sale                                                | 4,458                      | 2,928      | 355       |            | 7,741      |
| Commercial mortgage and other loans                                                  | 0                          | 136        | 212       |            | 348        |
| Other long-term investments                                                          | 37                         | 129        | 768       |            | 934        |
| Short-term investments                                                               | 3,307                      | 1,669      | 0         |            | 4,976      |
| Cash equivalents                                                                     | 2,475                      | 6,661      | 0         |            | 9,136      |
| Other assets                                                                         | 2,785                      | 0          | 9         |            | 2,794      |
| Subtotal excluding separate account assets                                           | 15,167                     | 228,560    | 5,085     | (5,904)    | 242,908    |
| Separate account assets(1)                                                           | 43,273                     | 148,711    | 15,792    |            | 207,776    |
| Total assets                                                                         | \$ 58,440                  | \$ 377,271 | \$ 20,877 | \$ (5,904) | \$ 450,684 |
| Future policy benefits                                                               | \$ 0                       | \$ 0       | \$ (204)  | \$         | \$ (204)   |
| Long-term debt                                                                       | 0                          | 0          | 0         |            | 0          |
| Other liabilities                                                                    | 1                          | 6,736      | 3         | (5,712)    | 1,028      |

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|                   |    |   |    |       |    |       |    |         |    |     |
|-------------------|----|---|----|-------|----|-------|----|---------|----|-----|
| Total liabilities | \$ | 1 | \$ | 6,736 | \$ | (201) | \$ | (5,712) | \$ | 824 |
|-------------------|----|---|----|-------|----|-------|----|---------|----|-----|

- (1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statement of Financial Position.
- (2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.
- (3) Includes reclassifications to conform to current period presentation.

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The methods and assumptions the Company uses to estimate fair value of assets and liabilities measured at fair value on a recurring basis are summarized below. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is primarily borne by the customers and policyholders.

**Fixed Maturity Securities** The fair values of the Company's public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices from pricing services are sourced from multiple vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company generally receives prices from multiple pricing services for each security, but ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. To validate reasonableness, prices are reviewed by internal asset managers through comparison with directly observed recent market trades and internal estimates of current fair value, developed using market observable inputs and economic indicators. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. If the pricing service updates the price to be more consistent in comparison to the presented market observations, the security remains within Level 2.

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may over-ride the information from the pricing service or broker with an internally-developed valuation. As of March 31, 2011 and December 31, 2010, over-rides on a net basis were not material. Internally-developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service over-rides, internally-developed valuations and non-binding broker quotes are generally included in Level 3 in the fair value hierarchy.

The fair value of private fixed maturities, which are primarily comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are not significant to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

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



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

**Trading Account Assets** Trading account assets (including trading account assets supporting insurance liabilities) consist primarily of public corporate bonds, treasuries, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under Fixed Maturity Securities and below under Equity Securities and Derivative Instruments.

**Equity Securities** Equity securities consist principally of investments in common and preferred stock of publicly traded companies, perpetual preferred stock, privately traded securities, as well as common stock mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using valuation and discounted cash flow models that require a substantial level of judgment. In determining the fair value of certain privately traded equity securities the discounted cash flow model may also use unobservable inputs, which reflect the Company's assumptions about the inputs market participants would use in pricing the asset. Most privately traded equity securities are classified within Level 3. The fair values of common stock mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of preferred equity securities are based on prices obtained from independent pricing services. These prices are then validated for reasonableness against recently traded market prices. Accordingly, these securities are generally classified within Level 2 in the fair value hierarchy. Fair values of perpetual preferred stock based on observable market inputs are classified within Level 2. However, when prices from independent pricing services are based on non-binding broker quotes as the directly observable market inputs become unavailable, the fair value of perpetual preferred stock are classified as Level 3.

**Commercial Mortgage and Other Loans** The fair value of commercial mortgage loans held for investment (i.e. interim portfolio) and accounted for using the Fair Value Option are determined based on the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for similar quality loans. The quality ratings for these loans, a primary determinant of the appropriate credit spread and a significant component of the pricing input, are based on internally-developed methodology. As a result, these loans are included in Level 3 in the fair value hierarchy.

The fair value of loans held for sale (i.e. agency-backed loans) and accounted for using the Fair Value Option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a pre-determined price, which is considered the principal exit market for these loans. The Company has evaluated the valuation inputs used for these assets, including the existence of pre-determined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

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

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The fair value of investments in funds holding publicly traded equity securities are generally based on quoted prices in active markets for identical investments and are therefore reflected as Level 1. The fair value of

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

investments in funds holding public fixed maturities are generally based on validated quotes from pricing services or observable data as described above, and are reflected in Level 2. The fair value of investments in funds holding public fixed maturities that are subject to significant liquidity restrictions are reflected in Level 3.

The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have been included within Level 3 in the fair value hierarchy.

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

**Derivative Instruments** Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, non-performance risk and liquidity as well as other factors. Liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity, and other specific attributes of the underlying derivative position. Fair values can also be affected by changes in estimates and assumptions including those related to counterparty behavior used in valuation models.

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

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

2.

OTC derivative contracts are executed under master netting agreements with counterparties with a Credit Support Annex, or CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties,

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should either party suffer a credit rating deterioration. The vast majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's non-performance risk, the Company incorporates additional spreads over London Interbank Offered Rate (LIBOR) into the discount rate used in determining the fair value of OTC derivative assets and liabilities. However, the non-performance risk adjustment is applied only to the uncollateralized portion of the OTC derivative assets and liabilities, after consideration of the impacts of two-way collateral posting. Most OTC derivative contract inputs have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. The Company's policy is to use mid-market pricing in determining its best estimate of fair value and classify these derivative contracts as Level 2.

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

**Cash Equivalents and Short-Term Investments** Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Money market instruments are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in the Cash Equivalents and Short-term Investments category are typically not traded in active markets; however, their fair values are based on market observable inputs and, accordingly, these investments have been classified within Level 2 in the fair value hierarchy.

**Other Assets and Other Liabilities** Other assets carried at fair value include U.S. Treasury bills held within the global commodities group whose fair values are based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. As a result, they are reported in the Level 1 hierarchy. Included in other liabilities are various derivatives contracts executed within the global commodities group, including exchange-traded futures, foreign currency and commodity contracts. The fair values of these derivative instruments are determined consistent with similar derivative instruments described above under Derivative Instruments.

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



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**PRUDENTIAL FINANCIAL, INC.**

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

The Company is also required to incorporate the market-perceived risk of its own non-performance in the valuation of the embedded derivatives associated with its optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the financial strength ratings of the Company's insurance subsidiaries in the valuation of the liability or asset appropriately takes into consideration the Company's own risk of non-performance. To reflect the market's perception of its non-performance risk, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with its optional living benefit features. The additional spread over LIBOR is determined taking into consideration publicly available information relating to the financial strength of the Company's insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. The Company adjusts these credit spreads to remove any liquidity risk premium. The additional spread over LIBOR incorporated into the discount rate as of March 31, 2011 generally ranged from 50 to 150 basis points for the portion of the interest rate curve most relevant to these liabilities. This additional spread is applied at an individual contract level and only to those embedded derivatives in a liability position and not to those in an asset position.

Other significant inputs to the valuation models for the embedded derivatives associated with the optional living benefit features of the Company's variable annuity products include capital market assumptions, such as interest rate and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience and give consideration to any observable market data, including market transactions such as acquisitions and reinsurance transactions. Since many of the assumptions utilized in the valuation of the embedded derivatives associated with the Company's optional living benefit features are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy.

**Transfers between Levels 1 and 2** There were no transfers between Levels 1 and 2 for the three months ended March 31, 2011. During the three months ended March 31, 2010, \$2.9 billion of Separate Account assets transferred from Level 2 to Level 1. The assets that transferred were foreign common stocks. This transfer was the result of no adjustment being made at March 31, 2010 for the fair value of these assets beyond the quoted market price. An adjustment was made to the quoted market prices of these types of assets to reflect events that occurred after foreign trading markets closed and prior to the close of U.S. trading markets on that day.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

**Changes in Level 3 assets and liabilities** The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2011, as well as the portion of gains or losses included in income for the three months ended March 31, 2011 attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2011.

|                                                                                                                             | Three Months Ended March 31, 2011                                                  |                                                                          |                                                                                                  |                                                                                                  |                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
|                                                                                                                             | Fixed<br>Maturities<br>Available<br>For<br>Sale-<br>Foreign<br>Government<br>Bonds | Fixed<br>Maturities<br>Available<br>For Sale-<br>Corporate<br>Securities | Fixed<br>Maturities<br>Available<br>For Sale-<br>Asset-<br>Backed<br>Securities<br>(in millions) | Fixed<br>Maturities<br>Available<br>For Sale-<br>Commercial<br>Mortgage-<br>Backed<br>Securities | Fixed<br>Maturities<br>Available<br>For Sale-<br>Residential<br>Mortgage-<br>Backed<br>Securities |
| Fair Value, beginning of period                                                                                             | \$ 27                                                                              | \$ 1,187                                                                 | \$ 1,753                                                                                         | \$ 130                                                                                           | \$ 23                                                                                             |
| Total gains (losses) (realized/unrealized):                                                                                 |                                                                                    |                                                                          |                                                                                                  |                                                                                                  |                                                                                                   |
| Included in earnings:                                                                                                       |                                                                                    |                                                                          |                                                                                                  |                                                                                                  |                                                                                                   |
| Realized investment gains (losses), net                                                                                     | 0                                                                                  | (17)                                                                     | 24                                                                                               | (2)                                                                                              | 0                                                                                                 |
| Asset management fees and other income                                                                                      | 0                                                                                  | 0                                                                        | 0                                                                                                | 0                                                                                                | 0                                                                                                 |
| Included in other comprehensive income (loss)                                                                               | 0                                                                                  | (10)                                                                     | 26                                                                                               | (1)                                                                                              | 0                                                                                                 |
| Net investment income                                                                                                       | 0                                                                                  | 3                                                                        | 8                                                                                                | (1)                                                                                              | 0                                                                                                 |
| Purchases                                                                                                                   | 0                                                                                  | 360                                                                      | 424                                                                                              | 0                                                                                                | 0                                                                                                 |
| Sales                                                                                                                       | 0                                                                                  | (7)                                                                      | (105)                                                                                            | (16)                                                                                             | 0                                                                                                 |
| Issuances                                                                                                                   | 0                                                                                  | 3                                                                        | 0                                                                                                | 0                                                                                                | 0                                                                                                 |
| Settlements                                                                                                                 | 0                                                                                  | (63)                                                                     | (51)                                                                                             | 0                                                                                                | (1)                                                                                               |
| Foreign currency translation                                                                                                | 0                                                                                  | 2                                                                        | 9                                                                                                | 2                                                                                                | 0                                                                                                 |
| Other(1)                                                                                                                    | 0                                                                                  | 146                                                                      | 502                                                                                              | 31                                                                                               | (1)                                                                                               |
| Transfers into Level 3(2)                                                                                                   | 0                                                                                  | 108                                                                      | 221                                                                                              | 0                                                                                                | 0                                                                                                 |
| Transfers out of Level 3(2)                                                                                                 | 0                                                                                  | (15)                                                                     | (55)                                                                                             | 0                                                                                                | 0                                                                                                 |
| Fair Value, end of period                                                                                                   | \$ 27                                                                              | \$ 1,697                                                                 | \$ 2,756                                                                                         | \$ 143                                                                                           | \$ 21                                                                                             |
| Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3): |                                                                                    |                                                                          |                                                                                                  |                                                                                                  |                                                                                                   |
| Included in earnings:                                                                                                       |                                                                                    |                                                                          |                                                                                                  |                                                                                                  |                                                                                                   |
| Realized investment gains (losses), net                                                                                     | \$ 0                                                                               | \$ (13)                                                                  | \$ 2                                                                                             | \$ (8)                                                                                           | \$ 0                                                                                              |
| Asset management fees and other income                                                                                      | \$ 0                                                                               | \$ 0                                                                     | \$ 0                                                                                             | \$ 0                                                                                             | \$ 0                                                                                              |
| Included in other comprehensive income (loss)                                                                               | \$ 0                                                                               | \$ (7)                                                                   | \$ 32                                                                                            | \$ 5                                                                                             | \$ 0                                                                                              |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                | Three Months Ended March 31, 2011                                                                  |                                                                                                           |                                                                                                                            |                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Corporate<br>Securities | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Asset-<br>Backed<br>Securities | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Commercial<br>Mortgage-<br>Backed<br>Securities | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Residential<br>Mortgage-<br>Backed<br>Securities |
|                                                                                                                                | (in millions)                                                                                      |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Fair Value, beginning of period                                                                                                | \$ 82                                                                                              | \$ 226                                                                                                    | \$ 5                                                                                                                       | \$ 18                                                                                                                       |
| Total gains (losses) (realized/unrealized):                                                                                    |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Included in earnings:                                                                                                          |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Realized investment gains (losses), net                                                                                        | 0                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Asset management fees and other income                                                                                         | (4)                                                                                                | 3                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Included in other comprehensive income (loss)                                                                                  | 0                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Net investment income                                                                                                          | 0                                                                                                  | 1                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Purchases                                                                                                                      | 45                                                                                                 | 178                                                                                                       | 0                                                                                                                          | 0                                                                                                                           |
| Sales                                                                                                                          | (11)                                                                                               | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Issuances                                                                                                                      | 0                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Settlements                                                                                                                    | (8)                                                                                                | (17)                                                                                                      | 0                                                                                                                          | 0                                                                                                                           |
| Foreign currency translation                                                                                                   | 0                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Other(1)                                                                                                                       | 0                                                                                                  | 15                                                                                                        | 0                                                                                                                          | (15)                                                                                                                        |
| Transfers into Level 3(2)                                                                                                      | 5                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Transfers out of Level 3(2)                                                                                                    | 0                                                                                                  | (20)                                                                                                      | 0                                                                                                                          | 0                                                                                                                           |
| Fair Value, end of period                                                                                                      | \$ 109                                                                                             | \$ 386                                                                                                    | \$ 5                                                                                                                       | \$ 3                                                                                                                        |
| Unrealized gains (losses) for the period relating to those Level 3<br>assets that were still held at the end of the period(3): |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Included in earnings:                                                                                                          |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Realized investment gains (losses), net                                                                                        | \$ 0                                                                                               | \$ 0                                                                                                      | \$ 0                                                                                                                       | \$ 0                                                                                                                        |
| Asset management fees and other income                                                                                         | \$ (1)                                                                                             | \$ 3                                                                                                      | \$ 0                                                                                                                       | \$ 0                                                                                                                        |
| Included in other comprehensive income (loss)                                                                                  | \$ 0                                                                                               | \$ 0                                                                                                      | \$ 0                                                                                                                       | \$ 0                                                                                                                        |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                | Three Months Ended March 31, 2011                                                               |                                                                   |                                                                                           |                                                                                           |                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
|                                                                                                                                | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Equity<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>Corporate<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>Asset-<br>Backed<br>Securities<br>(in millions) | Other<br>Trading<br>Account<br>Assets-<br>Commercial<br>Mortgage-<br>Backed<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>Residential<br>Mortgage-<br>Backed<br>Securities |
| Fair Value, beginning of period                                                                                                | \$ 4                                                                                            | \$ 35                                                             | \$ 54                                                                                     | \$ 19                                                                                     | \$ 18                                                                                      |
| Total gains (losses) (realized/unrealized):                                                                                    |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Included in earnings:                                                                                                          |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Realized investment gains (losses), net                                                                                        | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Asset management fees and other income                                                                                         | 1                                                                                               | 0                                                                 | 5                                                                                         | 4                                                                                         | 3                                                                                          |
| Included in other comprehensive income (loss)                                                                                  | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Net investment income                                                                                                          | 0                                                                                               | 0                                                                 | 1                                                                                         | 0                                                                                         | 0                                                                                          |
| Purchases                                                                                                                      | 1                                                                                               | 5                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Sales                                                                                                                          | (1)                                                                                             | (2)                                                               | (3)                                                                                       | (3)                                                                                       | (5)                                                                                        |
| Issuances                                                                                                                      | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Settlements                                                                                                                    | 0                                                                                               | 0                                                                 | (2)                                                                                       | 0                                                                                         | 0                                                                                          |
| Foreign currency translation                                                                                                   | 0                                                                                               | 0                                                                 | 1                                                                                         | 0                                                                                         | 0                                                                                          |
| Other(1)                                                                                                                       | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Transfers into Level 3(2)                                                                                                      | 76                                                                                              | 0                                                                 | 37                                                                                        | 2                                                                                         | 1                                                                                          |
| Transfers out of Level 3(2)                                                                                                    | 0                                                                                               | 0                                                                 | (10)                                                                                      | (1)                                                                                       | (1)                                                                                        |
| Fair Value, end of period                                                                                                      | \$ 81                                                                                           | \$ 38                                                             | \$ 83                                                                                     | \$ 21                                                                                     | \$ 16                                                                                      |
| Unrealized gains (losses) for the period relating to those<br>Level 3 assets that were still held at the end of the period(3): |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Included in earnings:                                                                                                          |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Realized investment gains (losses), net                                                                                        | \$ 0                                                                                            | \$ 0                                                              | \$ 0                                                                                      | \$ 0                                                                                      | \$ 0                                                                                       |
| Asset management fees and other income                                                                                         | \$ 1                                                                                            | \$ 0                                                              | \$ 4                                                                                      | \$ 3                                                                                      | \$ 2                                                                                       |
| Included in other comprehensive income (loss)                                                                                  | \$ 0                                                                                            | \$ 0                                                              | \$ 0                                                                                      | \$ 0                                                                                      | \$ 0                                                                                       |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                   | Three Months Ended March 31, 2011                              |                                                                 |                                                                |                                              |                                    |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------|------------------------------------|
|                                                                                                                                   | Other<br>Trading<br>Account<br>Assets-<br>Equity<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>All Other<br>Activity | Equity<br>Securities<br>Available<br>for Sale<br>(in millions) | Commercial<br>Mortgage and<br>Other<br>Loans | Other Long-<br>term<br>Investments |
| Fair Value, beginning of period                                                                                                   | \$ 26                                                          | \$ 134                                                          | \$ 355                                                         | \$ 212                                       | \$ 768                             |
| Total gains (losses) (realized/unrealized):                                                                                       |                                                                |                                                                 |                                                                |                                              |                                    |
| Included in earnings:                                                                                                             |                                                                |                                                                 |                                                                |                                              |                                    |
| Realized investment gains (losses), net                                                                                           | 0                                                              | (32)                                                            | (9)                                                            | 0                                            | 3                                  |
| Asset management fees and other income                                                                                            | 13                                                             | 2                                                               | 0                                                              | 0                                            | 31                                 |
| Included in other comprehensive income (loss)                                                                                     | 0                                                              | 0                                                               | 22                                                             | 0                                            | 0                                  |
| Net investment income                                                                                                             | 0                                                              | 0                                                               | 0                                                              | 0                                            | 1                                  |
| Purchases                                                                                                                         | 1                                                              | 0                                                               | 10                                                             | 0                                            | 10                                 |
| Sales                                                                                                                             | 0                                                              | 0                                                               | (8)                                                            | 0                                            | (4)                                |
| Issuances                                                                                                                         | 0                                                              | 0                                                               | 0                                                              | 0                                            | 0                                  |
| Settlements                                                                                                                       | (2)                                                            | (1)                                                             | (1)                                                            | (34)                                         | (5)                                |
| Foreign currency translation                                                                                                      | 0                                                              | 0                                                               | 14                                                             | 0                                            | 0                                  |
| Other(1)                                                                                                                          | 0                                                              | 0                                                               | 449                                                            | 0                                            | 0                                  |
| Transfers into Level 3(2)                                                                                                         | 126                                                            | 0                                                               | 824                                                            | 0                                            | 0                                  |
| Transfers out of Level 3(2)                                                                                                       | 0                                                              | 0                                                               | (1)                                                            | 0                                            | 0                                  |
| Fair Value, end of period                                                                                                         | \$ 164                                                         | \$ 103                                                          | \$ 1,655                                                       | \$ 178                                       | \$ 804                             |
| Unrealized gains (losses) for the period relating to those<br>Level 3 assets that were still held at the end of the<br>period(3): |                                                                |                                                                 |                                                                |                                              |                                    |
| Included in earnings:                                                                                                             |                                                                |                                                                 |                                                                |                                              |                                    |
| Realized investment gains (losses), net                                                                                           | \$ 0                                                           | \$ (31)                                                         | \$ (10)                                                        | \$ 0                                         | \$ 3                               |
| Asset management fees and other income                                                                                            | \$ 12                                                          | \$ 2                                                            | \$ 0                                                           | \$ 0                                         | \$ 21                              |
| Included in other comprehensive income (loss)                                                                                     | \$ 0                                                           | \$ 0                                                            | \$ 23                                                          | \$ 0                                         | \$ 0                               |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                             | <b>Three Months Ended March 31, 2011</b> |                                           |                                                         |                           |                              |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|-------------------------------------------|---------------------------------------------------------|---------------------------|------------------------------|
|                                                                                                                                             | <b>Other<br/>Assets</b>                  | <b>Separate<br/>Account<br/>Assets(4)</b> | <b>Future<br/>Policy<br/>Benefits<br/>(in millions)</b> | <b>Long-term<br/>Debt</b> | <b>Other<br/>Liabilities</b> |
| Fair Value, beginning of period                                                                                                             | \$ 9                                     | \$ 15,792                                 | \$ 204                                                  | \$ 0                      | \$ (3)                       |
| Total gains (losses) (realized/unrealized):                                                                                                 |                                          |                                           |                                                         |                           |                              |
| Included in earnings:                                                                                                                       |                                          |                                           |                                                         |                           |                              |
| Realized investment gains (losses), net                                                                                                     | 0                                        | 0                                         | 602                                                     | 0                         | (8)                          |
| Asset management fees and other income                                                                                                      | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Interest credited to policyholders' account balances                                                                                        | 0                                        | 868                                       | 0                                                       | 0                         | 0                            |
| Included in other comprehensive income (loss)                                                                                               | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Net investment income                                                                                                                       | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Purchases                                                                                                                                   | 0                                        | 831                                       | (111)                                                   | 0                         | 0                            |
| Sales                                                                                                                                       | 0                                        | (22)                                      | (1)                                                     | 0                         | 0                            |
| Issuances                                                                                                                                   | 0                                        | 1                                         | 0                                                       | 0                         | 0                            |
| Settlements                                                                                                                                 | 0                                        | (512)                                     | 0                                                       | 0                         | 8                            |
| Foreign currency translation                                                                                                                | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Other(1)                                                                                                                                    | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Transfers into Level 3(2)                                                                                                                   | 0                                        | 26                                        | 0                                                       | 0                         | 0                            |
| Transfers out of Level 3(2)                                                                                                                 | 0                                        | (352)                                     | 0                                                       | 0                         | 0                            |
| Fair Value, end of period                                                                                                                   | \$ 9                                     | \$ 16,632                                 | \$ 694                                                  | \$ 0                      | \$ (3)                       |
| Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3): |                                          |                                           |                                                         |                           |                              |
| Included in earnings:                                                                                                                       |                                          |                                           |                                                         |                           |                              |
| Realized investment gains (losses), net                                                                                                     | \$ 0                                     | \$ 0                                      | \$ 598                                                  | \$ 0                      | \$ (8)                       |
| Asset management fees and other income                                                                                                      | \$ 0                                     | \$ 0                                      | \$ 0                                                    | \$ 0                      | \$ 0                         |
| Interest credited to policyholders' account balances                                                                                        | \$ 0                                     | \$ 644                                    | \$ 0                                                    | \$ 0                      | \$ 0                         |
| Included in other comprehensive income (loss)                                                                                               | \$ 0                                     | \$ 0                                      | \$ 0                                                    | \$ 0                      | \$ 0                         |

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

**Transfers** As a part of an ongoing assessment of pricing inputs to ensure appropriateness of the level classification in the fair value hierarchy the Company may reassign level classification from time to time. As a result of such a review, it was determined that the pricing inputs for perpetual preferred stocks provided by third party pricing services were primarily based on non-binding broker quotes which could not always be verified against directly observable market information. Consequently, perpetual preferred stocks were transferred into Level 3 within the fair value hierarchy. This represents the majority of the transfers into Level 3 for Equity Securities Available for Sale, Trading Account Assets Supporting Insurance Liabilities Equity Securities and Other Trading Account Assets Equity Securities. Other transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized. Transfers out of Level 3 were primarily due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate.

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2010, as well as the portion of gains or losses included in income for the three months ended March 31, 2010 attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2010.

|                                               | Three Months Ended March 31, 2010                                           |                                                                          |                                                                                              |                                                                                                     |                                                                                                      |
|-----------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
|                                               | Fixed<br>Maturities<br>Available For<br>Sale-Foreign<br>Government<br>Bonds | Fixed<br>Maturities<br>Available For<br>Sale-<br>Corporate<br>Securities | Fixed<br>Maturities<br>Available For<br>Sale-Asset-<br>Backed<br>Securities<br>(in millions) | Fixed<br>Maturities<br>Available<br>For<br>Sale-<br>Commercial<br>Mortgage-<br>Backed<br>Securities | Fixed<br>Maturities<br>Available<br>For<br>Sale-<br>Residential<br>Mortgage-<br>Backed<br>Securities |
| Fair Value, beginning of period               | \$ 47                                                                       | \$ 902                                                                   | \$ 6,363                                                                                     | \$ 305                                                                                              | \$ 104                                                                                               |
| Total gains (losses) (realized/unrealized):   |                                                                             |                                                                          |                                                                                              |                                                                                                     |                                                                                                      |
| Included in earnings:                         |                                                                             |                                                                          |                                                                                              |                                                                                                     |                                                                                                      |
| Realized investment gains (losses), net       | 0                                                                           | (16)                                                                     | (60)                                                                                         | (114)                                                                                               | 0                                                                                                    |
| Asset management fees and other income        | 0                                                                           | 0                                                                        | 0                                                                                            | 0                                                                                                   | 0                                                                                                    |
| Included in other comprehensive income (loss) | 0                                                                           | 36                                                                       | 92                                                                                           | 40                                                                                                  | 0                                                                                                    |
| Net investment income                         | 0                                                                           | 7                                                                        | (36)                                                                                         | 0                                                                                                   | 0                                                                                                    |
| Purchases, sales, issuances and settlements   | 0                                                                           | (21)                                                                     | (311)                                                                                        | 2                                                                                                   | (2)                                                                                                  |
| Foreign currency translation                  | 0                                                                           | (1)                                                                      | (5)                                                                                          | (7)                                                                                                 | 0                                                                                                    |
| Other(1)                                      | 0                                                                           | 0                                                                        | (8)                                                                                          | 56                                                                                                  | (48)                                                                                                 |
| Transfers into Level 3(2)                     | 0                                                                           | 66                                                                       | 0                                                                                            | 11                                                                                                  | 2                                                                                                    |
| Transfers out of Level 3(2)                   | (1)                                                                         | (18)                                                                     | (12)                                                                                         | (48)                                                                                                | (30)                                                                                                 |
| Fair Value, end of period                     | \$ 46                                                                       | \$ 955                                                                   | \$ 6,023                                                                                     | \$ 245                                                                                              | \$ 26                                                                                                |

Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):

|                                         |      |         |         |          |      |
|-----------------------------------------|------|---------|---------|----------|------|
| Included in earnings:                   |      |         |         |          |      |
| Realized investment gains (losses), net | \$ 0 | \$ (14) | \$ (74) | \$ (114) | \$ 0 |

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|                                               |      |       |       |       |      |
|-----------------------------------------------|------|-------|-------|-------|------|
| Asset management fees and other income        | \$ 0 | \$ 0  | \$ 0  | \$ 0  | \$ 0 |
| Included in other comprehensive income (loss) | \$ 0 | \$ 37 | \$ 73 | \$ 40 | \$ 0 |

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**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                | Three Months Ended March 31, 2010                                                                  |                                                                                                           |                                                                                                                            |                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Corporate<br>Securities | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Asset-<br>Backed<br>Securities | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Commercial<br>Mortgage-<br>Backed<br>Securities | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Residential<br>Mortgage-<br>Backed<br>Securities |
|                                                                                                                                | (in millions)                                                                                      |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Fair Value, beginning of period                                                                                                | \$ 83                                                                                              | \$ 281                                                                                                    | \$ 5                                                                                                                       | \$ 20                                                                                                                       |
| Total gains (losses) (realized/unrealized):                                                                                    |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Included in earnings:                                                                                                          |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Realized investment gains (losses), net                                                                                        | (4)                                                                                                | (2)                                                                                                       | 0                                                                                                                          | 0                                                                                                                           |
| Asset management fees and other income                                                                                         | 4                                                                                                  | (2)                                                                                                       | 4                                                                                                                          | 0                                                                                                                           |
| Included in other comprehensive income (loss)                                                                                  | 0                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Net investment income                                                                                                          | 1                                                                                                  | 0                                                                                                         | 0                                                                                                                          | 0                                                                                                                           |
| Purchases, sales, issuances and settlements                                                                                    | (7)                                                                                                | 16                                                                                                        | (1)                                                                                                                        | 0                                                                                                                           |
| Other(1)                                                                                                                       | 0                                                                                                  | (9)                                                                                                       | 9                                                                                                                          | 0                                                                                                                           |
| Transfers into Level 3(2)                                                                                                      | 18                                                                                                 | 0                                                                                                         | 31                                                                                                                         | 0                                                                                                                           |
| Transfers out of Level 3(2)                                                                                                    | 0                                                                                                  | (7)                                                                                                       | 0                                                                                                                          | 0                                                                                                                           |
| Fair Value, end of period                                                                                                      | \$ 95                                                                                              | \$ 277                                                                                                    | \$ 48                                                                                                                      | \$ 20                                                                                                                       |
| Unrealized gains (losses) for the period relating to those Level 3<br>assets that were still held at the end of the period(3): |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Included in earnings:                                                                                                          |                                                                                                    |                                                                                                           |                                                                                                                            |                                                                                                                             |
| Realized investment gains (losses), net                                                                                        | \$ 0                                                                                               | \$ 0                                                                                                      | \$ 0                                                                                                                       | \$ 0                                                                                                                        |
| Asset management fees and other income                                                                                         | \$ (1)                                                                                             | \$ (3)                                                                                                    | \$ 4                                                                                                                       | \$ 0                                                                                                                        |
| Included in other comprehensive income (loss)                                                                                  | \$ 0                                                                                               | \$ 0                                                                                                      | \$ 0                                                                                                                       | \$ 0                                                                                                                        |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                | Three Months Ended March 31, 2010                                                               |                                                                   |                                                                                           |                                                                                           |                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
|                                                                                                                                | Trading<br>Account<br>Assets<br>Supporting<br>Insurance<br>Liabilities-<br>Equity<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>Corporate<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>Asset-<br>Backed<br>Securities<br>(in millions) | Other<br>Trading<br>Account<br>Assets-<br>Commercial<br>Mortgage-<br>Backed<br>Securities | Other<br>Trading<br>Account<br>Assets-<br>Residential<br>Mortgage-<br>Backed<br>Securities |
| Fair Value, beginning of period                                                                                                | \$ 3                                                                                            | \$ 34                                                             | \$ 97                                                                                     | \$ 27                                                                                     | \$ 12                                                                                      |
| Total gains (losses) (realized/unrealized):                                                                                    |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Included in earnings:                                                                                                          |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Realized investment gains (losses), net                                                                                        | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Asset management fees and other income                                                                                         | 1                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 2                                                                                          |
| Included in other comprehensive income (loss)                                                                                  | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Net investment income                                                                                                          | 0                                                                                               | 0                                                                 | 0                                                                                         | 0                                                                                         | 0                                                                                          |
| Purchases, sales, issuances and settlements                                                                                    | 0                                                                                               | 1                                                                 | (42)                                                                                      | 0                                                                                         | 0                                                                                          |
| Foreign currency translation                                                                                                   | 0                                                                                               | 0                                                                 | (1)                                                                                       | 0                                                                                         | 0                                                                                          |
| Transfers into Level 3(2)                                                                                                      | 0                                                                                               | 1                                                                 | 2                                                                                         | 1                                                                                         | 7                                                                                          |
| Transfers out of Level 3(2)                                                                                                    | 0                                                                                               | 0                                                                 | (2)                                                                                       | (6)                                                                                       | (1)                                                                                        |
| Fair Value, end of period                                                                                                      | \$ 4                                                                                            | \$ 36                                                             | \$ 54                                                                                     | \$ 22                                                                                     | \$ 20                                                                                      |
| Unrealized gains (losses) for the period relating to those Level 3<br>assets that were still held at the end of the period(3): |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Included in earnings:                                                                                                          |                                                                                                 |                                                                   |                                                                                           |                                                                                           |                                                                                            |
| Realized investment gains (losses), net                                                                                        | \$ 0                                                                                            | \$ 0                                                              | \$ 0                                                                                      | \$ 0                                                                                      | \$ 0                                                                                       |
| Asset management fees and other income                                                                                         | \$ 1                                                                                            | \$ 0                                                              | \$ (1)                                                                                    | \$ (1)                                                                                    | \$ 2                                                                                       |
| Included in other comprehensive income (loss)                                                                                  | \$ 0                                                                                            | \$ 0                                                              | \$ 0                                                                                      | \$ 0                                                                                      | \$ 0                                                                                       |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                   | <b>Three Months Ended March 31, 2010</b>                                   |                                                                             |                                                                           |                                                    |                                            |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|
|                                                                                                                                   | <b>Other<br/>Trading<br/>Account<br/>Assets-<br/>Equity<br/>Securities</b> | <b>Other<br/>Trading<br/>Account<br/>Assets-<br/>All Other<br/>Activity</b> | <b>Equity<br/>Securities<br/>Available<br/>for Sale<br/>(in millions)</b> | <b>Commercial<br/>Mortgage and<br/>Other Loans</b> | <b>Other<br/>Long-term<br/>Investments</b> |
| Fair Value, beginning of period                                                                                                   | \$ 24                                                                      | \$ 297                                                                      | \$ 393                                                                    | \$ 338                                             | \$ 498                                     |
| Total gains (losses) (realized/unrealized):                                                                                       |                                                                            |                                                                             |                                                                           |                                                    |                                            |
| Included in earnings:                                                                                                             |                                                                            |                                                                             |                                                                           |                                                    |                                            |
| Realized investment gains (losses), net                                                                                           | 0                                                                          | (41)                                                                        | 15                                                                        | (7)                                                | (5)                                        |
| Asset management fees and other income                                                                                            | 0                                                                          | 4                                                                           | 0                                                                         | 0                                                  | (16)                                       |
| Included in other comprehensive income (loss)                                                                                     | 0                                                                          | 0                                                                           | (7)                                                                       | 0                                                  | 0                                          |
| Net investment income                                                                                                             | 0                                                                          | 0                                                                           | 0                                                                         | 0                                                  | 2                                          |
| Purchases, sales, issuances and settlements                                                                                       | 2                                                                          | (75)                                                                        | (42)                                                                      | 0                                                  | (1)                                        |
| Foreign currency translation                                                                                                      | (1)                                                                        | 0                                                                           | (6)                                                                       | 0                                                  | 0                                          |
| Transfers into Level 3(2)                                                                                                         | 0                                                                          | 0                                                                           | 2                                                                         | 0                                                  | 0                                          |
| Transfers out of Level 3(2)                                                                                                       | 0                                                                          | 0                                                                           | 0                                                                         | 0                                                  | 0                                          |
| Fair Value, end of period                                                                                                         | \$ 25                                                                      | \$ 185                                                                      | \$ 355                                                                    | \$ 331                                             | \$ 478                                     |
| Unrealized gains (losses) for the period relating to those<br>Level 3 assets that were still held at the end of the<br>period(3): |                                                                            |                                                                             |                                                                           |                                                    |                                            |
| Included in earnings:                                                                                                             |                                                                            |                                                                             |                                                                           |                                                    |                                            |
| Realized investment gains (losses), net                                                                                           | \$ 0                                                                       | \$ (41)                                                                     | \$ (29)                                                                   | \$ (7)                                             | \$ (5)                                     |
| Asset management fees and other income                                                                                            | \$ 0                                                                       | \$ 4                                                                        | \$ 0                                                                      | \$ 0                                               | \$ (18)                                    |
| Included in other comprehensive income (loss)                                                                                     | \$ 0                                                                       | \$ 0                                                                        | \$ 31                                                                     | \$ 0                                               | \$ 0                                       |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

|                                                                                                                                             | <b>Three Months Ended March 31, 2010</b> |                                           |                                                         |                           |                              |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|-------------------------------------------|---------------------------------------------------------|---------------------------|------------------------------|
|                                                                                                                                             | <b>Other<br/>Assets</b>                  | <b>Separate<br/>Account<br/>Assets(4)</b> | <b>Future<br/>Policy<br/>Benefits<br/>(in millions)</b> | <b>Long-term<br/>Debt</b> | <b>Other<br/>Liabilities</b> |
| Fair Value, beginning of period                                                                                                             | \$ 27                                    | \$ 12,894                                 | \$ (55)                                                 | \$ (429)                  | \$ (6)                       |
| Total gains (losses) (realized/unrealized):                                                                                                 |                                          |                                           |                                                         |                           |                              |
| Included in earnings:                                                                                                                       |                                          |                                           |                                                         |                           |                              |
| Realized investment gains (losses), net                                                                                                     | 0                                        | 0                                         | 285                                                     | 0                         | 4                            |
| Asset management fees and other income                                                                                                      | (7)                                      | 0                                         | 0                                                       | 0                         | 0                            |
| Interest credited to policyholders' account balances                                                                                        | 0                                        | (188)                                     | 0                                                       | 0                         | 0                            |
| Included in other comprehensive income (loss)                                                                                               | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Net investment income                                                                                                                       | 0                                        | 0                                         | 0                                                       | 0                         | 0                            |
| Purchases, sales, issuances and settlements                                                                                                 | 0                                        | 19                                        | (64)                                                    | 429                       | 0                            |
| Transfers into Level 3(2)                                                                                                                   | 0                                        | 8                                         | 0                                                       | 0                         | 0                            |
| Transfers out of Level 3(2)                                                                                                                 | 0                                        | (93)                                      | 0                                                       | 0                         | 0                            |
| Fair Value, end of period                                                                                                                   | \$ 20                                    | \$ 12,640                                 | \$ 166                                                  | \$ 0                      | \$ (2)                       |
| Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3): |                                          |                                           |                                                         |                           |                              |
| Included in earnings:                                                                                                                       |                                          |                                           |                                                         |                           |                              |
| Realized investment gains (losses), net                                                                                                     | \$ 0                                     | \$ 0                                      | \$ 282                                                  | \$ 0                      | \$ 4                         |
| Asset management fees and other income                                                                                                      | \$ (7)                                   | \$ 0                                      | \$ 0                                                    | \$ 0                      | \$ 0                         |
| Interest credited to policyholders' account balances                                                                                        | \$ 0                                     | \$ (378)                                  | \$ 0                                                    | \$ 0                      | \$ 0                         |
| Included in other comprehensive income (loss)                                                                                               | \$ 0                                     | \$ 0                                      | \$ 0                                                    | \$ 0                      | \$ 0                         |

(1) Other represents the impact of consolidation or deconsolidation of funds and reclasses of certain assets between reporting categories.

(2) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.

(3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.

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

**Transfers** Transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized. Transfers out of Level 3 are primarily due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Derivative Fair Value Information**

The following tables present the balance of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying. These tables exclude embedded derivatives which are recorded with the associated host contract. The derivative assets and liabilities shown below are included in Other trading account assets, Other long-term investments or Other liabilities in the tables presented previously in this note, under the headings Assets and Liabilities by Hierarchy Level and Changes in Level 3 Assets and Liabilities.

|                              | Level 1 | Level 2  | As of March 31, 2011 |            | Total    |
|------------------------------|---------|----------|----------------------|------------|----------|
|                              |         |          | Level 3              | Netting(1) |          |
|                              |         |          | (in millions)        |            |          |
| Derivative assets:           |         |          |                      |            |          |
| Interest Rate                | \$ 4    | \$ 4,543 | \$ 0                 | \$         | \$ 4,547 |
| Currency                     | 0       | 1,174    | 0                    |            | 1,174    |
| Credit                       | 0       | 22       | 3                    |            | 25       |
| Currency/Interest Rate       | 0       | 404      | 0                    |            | 404      |
| Equity                       | 2       | 257      | 92                   |            | 351      |
| Commodity                    | 1       | 273      | 0                    |            | 274      |
| Netting(1)                   |         |          |                      | (5,648)    | (5,648)  |
| Total derivative assets      | \$ 7    | \$ 6,673 | \$ 95                | \$ (5,648) | \$ 1,127 |
| Derivative liabilities:      |         |          |                      |            |          |
| Interest Rate                | \$ 3    | \$ 3,609 | \$ 8                 | \$         | \$ 3,620 |
| Currency                     | 12      | 1,322    | 0                    |            | 1,334    |
| Credit                       | 0       | 117      | 0                    |            | 117      |
| Currency/Interest Rate       | 0       | 934      | 0                    |            | 934      |
| Equity                       | 0       | 94       | 0                    |            | 94       |
| Commodity                    | 0       | 347      | 0                    |            | 347      |
| Netting(1)                   |         |          |                      | (5,557)    | (5,557)  |
| Total derivative liabilities | \$ 15   | \$ 6,423 | \$ 8                 | \$ (5,557) | \$ 889   |

|                        | Level 1 | Level 2  | As of December 31, 2010 |            | Total    |
|------------------------|---------|----------|-------------------------|------------|----------|
|                        |         |          | Level 3                 | Netting(1) |          |
|                        |         |          | (in millions)           |            |          |
| Derivative assets:     |         |          |                         |            |          |
| Interest Rate          | \$ 17   | \$ 5,268 | \$ 0                    | \$         | \$ 5,285 |
| Currency               | 7       | 1,054    | 0                       |            | 1,061    |
| Credit                 | 0       | 91       | 0                       |            | 91       |
| Currency/Interest Rate | 0       | 544      | 0                       |            | 544      |
| Equity                 | 1       | 392      | 126                     |            | 519      |
| Commodity              | 144     | 235      | 0                       |            | 379      |
| Netting(1)             |         |          |                         | (5,904)    | (5,904)  |

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|                              |        |          |        |            |          |
|------------------------------|--------|----------|--------|------------|----------|
| Total derivative assets      | \$ 169 | \$ 7,584 | \$ 126 | \$ (5,904) | \$ 1,975 |
| Derivative liabilities:      |        |          |        |            |          |
| Interest Rate                | \$ 18  | \$ 4,038 | \$ 12  | \$         | \$ 4,068 |
| Currency                     | 0      | 1,108    | 0      |            | 1,108    |
| Credit                       | 0      | 116      | 0      |            | 116      |
| Currency/Interest Rate       | 0      | 1,068    | 0      |            | 1,068    |
| Equity                       | 0      | 174      | 0      |            | 174      |
| Commodity                    | 0      | 314      | 0      |            | 314      |
| Netting(1)                   |        |          |        | (5,712)    | (5,712)  |
| Total derivative liabilities | \$ 18  | \$ 6,818 | \$ 12  | \$ (5,712) | \$ 1,136 |

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

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

**Changes in Level 3 derivative assets and liabilities** The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the three months ended March 31, 2011, as well as the portion of gains or losses included in income for the three months ended March 31, 2011, attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2011.

|                                                                                                                          | Three Months Ended March 31, 2011 |                                                  |                                             |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------|---------------------------------------------|
|                                                                                                                          | Derivative<br>Assets-<br>Equity   | Derivative<br>Assets-<br>Credit<br>(in millions) | Derivative<br>Liabilities-<br>Interest Rate |
| Fair Value, beginning of period                                                                                          | \$ 126                            | \$ 0                                             | \$ (12)                                     |
| Total gains (losses) (realized/unrealized):                                                                              |                                   |                                                  |                                             |
| Included in earnings:                                                                                                    |                                   |                                                  |                                             |
| Realized investment gains (losses), net                                                                                  | (33)                              | 3                                                | 4                                           |
| Asset management fees and other income                                                                                   | 0                                 | 0                                                | 0                                           |
| Purchases                                                                                                                | 0                                 | 0                                                | 0                                           |
| Sales                                                                                                                    | 0                                 | 0                                                | 0                                           |
| Insurances                                                                                                               | 0                                 | 0                                                | 0                                           |
| Settlements                                                                                                              | (1)                               | 0                                                | 0                                           |
| Foreign currency translation                                                                                             | 0                                 | 0                                                | 0                                           |
| Other(1)                                                                                                                 | 0                                 | 0                                                | 0                                           |
| Transfers into Level 3(1)                                                                                                | 0                                 | 0                                                | 0                                           |
| Transfers out of Level 3(1)                                                                                              | 0                                 | 0                                                | 0                                           |
| Fair Value, end of period                                                                                                | \$ 92                             | \$ 3                                             | \$ (8)                                      |
| Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period: |                                   |                                                  |                                             |
| Included in earnings:                                                                                                    |                                   |                                                  |                                             |
| Realized investment gains (losses), net                                                                                  | \$ (33)                           | \$ 3                                             | \$ 3                                        |
| Asset management fees and other income                                                                                   | \$ 0                              | \$ 0                                             | \$ 0                                        |

|                                             | Three Months Ended March 31, 2010 |                                                       |                                             |
|---------------------------------------------|-----------------------------------|-------------------------------------------------------|---------------------------------------------|
|                                             | Derivative<br>Assets-<br>Equity   | Derivative<br>Liabilities-<br>Credit<br>(in millions) | Derivative<br>Liabilities-<br>Interest Rate |
| Fair Value, beginning of period             | \$ 288                            | \$ (6)                                                | \$ (4)                                      |
| Total gains (losses) (realized/unrealized): |                                   |                                                       |                                             |
| Included in earnings:                       |                                   |                                                       |                                             |
| Realized investment gains (losses), net     | (67)                              | 4                                                     | (5)                                         |
| Asset management fees and other income      | 0                                 | 0                                                     | 1                                           |
| Purchases, sales, issuances and settlements | (47)                              | 0                                                     | 0                                           |
| Foreign currency translation                | 0                                 | 0                                                     | 0                                           |
| Other(1)                                    | 0                                 | 0                                                     | 0                                           |
| Transfers into Level 3(1)                   | 0                                 | 0                                                     | 0                                           |
| Transfers out of Level 3(1)                 | 0                                 | 0                                                     | 0                                           |

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|                           |        |        |        |
|---------------------------|--------|--------|--------|
| Fair Value, end of period | \$ 174 | \$ (2) | \$ (8) |
|---------------------------|--------|--------|--------|

Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:

|                                         |         |      |        |
|-----------------------------------------|---------|------|--------|
| Included in earnings:                   |         |      |        |
| Realized investment gains (losses), net | \$ (67) | \$ 4 | \$ (5) |
| Asset management fees and other income  | \$ 0    | \$ 0 | \$ 0   |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

**Nonrecurring Fair Value Measurements** Certain assets and liabilities are measured at fair value on a nonrecurring basis. Nonrecurring fair value reserve adjustments resulted in \$14 million of net losses being recorded for the three months ended March 31, 2011 on certain commercial mortgage loans. The carrying value of these loans as of March 31, 2011 was \$163 million. Similar commercial mortgage loan reserve adjustments of \$18 million in net losses were recorded for the three months ended March 31, 2010. The reserve adjustments were based on discounted cash flows utilizing market rates and were classified as Level 3 in the hierarchy.

An impairment of \$3 million was recorded for the three months ended March 31, 2011 on real estate held for investment. The impairment was based on appraised value and is classified as Level 3 in the valuation hierarchy. Impairments of \$4 million were recorded for the three months ended March 31, 2010 on certain cost method investments. These fair value adjustments were based on inputs classified as Level 3 in the valuation hierarchy. The inputs utilized were primarily discounted estimated future cash flows and, where appropriate, valuations provided by the general partners taken into consideration with deal and management fee expenses.

**Fair Value Option** The following table presents information regarding changes in fair values recorded in earnings for commercial mortgage loans and other long-term investments, still held as of the reporting dates indicated, where the fair value option has been elected.

|                                            | <b>Three Months Ended March 31,</b> |             |
|--------------------------------------------|-------------------------------------|-------------|
|                                            | <b>2011</b>                         | <b>2010</b> |
|                                            | <b>(in millions)</b>                |             |
| <b>Assets:</b>                             |                                     |             |
| Commercial mortgage loans:                 |                                     |             |
| Changes in instrument-specific credit risk | \$ 1                                | \$ (5)      |
| Other changes in fair value                | \$ (2)                              | \$ (2)      |
| <b>Other long-term investments:</b>        |                                     |             |
| Changes in fair value                      | \$ 4                                | \$ 0        |

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

Interest income on commercial mortgage loans is included in net investment income. For the three months ended March 31, 2011 and 2010, the Company recorded \$4 million and \$6 million of interest income, respectively, on fair value option loans. Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan.

The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were \$287 million and \$310 million, respectively, as of March 31, 2011, and \$364 million and \$393 million, respectively, as December 31, 2010. As of March 31, 2011, loans that were in nonaccrual status had fair values of \$77 million and aggregate contractual principal amounts of \$87 million, respectively.

The fair value of other long-term investments was \$264 million as of March 31, 2011 and \$258 million as of December 31, 2010.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)****Fair Value of Financial Instruments**

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

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

|                                                      | March 31, 2011     |            | December 31, 2010  |            |
|------------------------------------------------------|--------------------|------------|--------------------|------------|
|                                                      | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value |
|                                                      | (in millions)      |            |                    |            |
| <b>Assets:</b>                                       |                    |            |                    |            |
| Fixed maturities, held to maturity                   | \$ 5,102           | \$ 5,283   | \$ 5,226           | \$ 5,477   |
| Commercial mortgage and other loans(1)               | 32,960             | 34,241     | 31,831             | 33,129     |
| Policy loans                                         | 11,272             | 13,006     | 10,667             | 12,781     |
| <b>Liabilities:</b>                                  |                    |            |                    |            |
| Policyholders' account balances investment contracts | \$ 99,418          | \$ 100,494 | \$ 77,254          | \$ 78,757  |
| Short-term and long-term debt                        | 26,465             | 27,743     | 25,635             | 27,094     |
| Debt of consolidated VIEs                            | 382                | 269        | 382                | 265        |
| Bank customer liabilities                            | 1,602              | 1,620      | 1,754              | 1,775      |

(1) Includes items carried at fair value under the fair value option.

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

***Fixed Maturities, held to maturity***

The fair values of public fixed maturity securities are generally based on prices from third party pricing services, which are reviewed to validate reasonability. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities the fair value is based on non-binding broker quotes,

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if available, or determined using a discounted cash flow model or internally-developed values. For private fixed maturities fair value is determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the security.

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**PRUDENTIAL FINANCIAL, INC.**

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

***Commercial Mortgage and Other Loans***

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

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

***Policy Loans***

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

***Investment Contracts Policyholders Account Balances***

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

***Debt***

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

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

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**PRUDENTIAL FINANCIAL, INC.**

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

***Bank Customer Liabilities***

The carrying amount for certain deposits (interest and non-interest demand, savings and money market accounts) approximates or equals their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates being offered on certificates at the reporting dates to a schedule of aggregated expected monthly maturities. Bank customer liabilities are reflected within Other liabilities.

**14. DERIVATIVE INSTRUMENTS**

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

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

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

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

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

foreign operations and anticipated earnings of its foreign operations.

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

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**PRUDENTIAL FINANCIAL, INC.**

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

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

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

The Company uses to be announced ( TBA ) forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company to achieve better diversification and to enhance the return on its investment portfolio. TBAs provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Additionally, pursuant to the Company's mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to repurchase them at a future date. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

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

The Company sells variable annuity products, which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are marked to market through Realized investment gains (losses), net based on the change in value of the underlying contractual guarantees, which are determined using valuation models. The Company maintains a portfolio of derivative instruments that is intended to hedge the risks related to the above products' features. The derivatives may include, but are not limited to equity options, total return swaps, interest rate swap options, caps, floors, and other instruments. In addition, some variable annuity products feature an automatic rebalancing element to minimize risks inherent in the Company's guarantees which reduces the need for hedges.



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

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

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

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

|                                          | March 31, 2011     |                      |             | December 31, 2010  |                      |             |
|------------------------------------------|--------------------|----------------------|-------------|--------------------|----------------------|-------------|
|                                          | Notional<br>Amount | Fair Value<br>Assets | Liabilities | Notional<br>Amount | Fair Value<br>Assets | Liabilities |
|                                          | (in millions)      |                      |             |                    |                      |             |
| Qualifying Hedge Relationships           |                    |                      |             |                    |                      |             |
| Interest Rate                            | \$ 5,769           | \$ 93                | \$ (352)    | \$ 6,436           | \$ 109               | \$ (428)    |
| Currency                                 | 1,075              | 4                    | (12)        | 1,087              | 25                   | (6)         |
| Currency/Interest Rate                   | 3,647              | 82                   | (477)       | 3,521              | 83                   | (449)       |
| Total Qualifying Hedge Relationships     | \$ 10,491          | \$ 179               | \$ (841)    | \$ 11,044          | \$ 217               | \$ (883)    |
| Non-Qualifying Hedge Relationships       |                    |                      |             |                    |                      |             |
| Interest Rate                            | \$ 135,979         | \$ 3,265             | \$ (2,007)  | \$ 124,700         | \$ 3,746             | \$ (2,124)  |
| Currency                                 | 15,436             | 202                  | (271)       | 10,645             | 219                  | (396)       |
| Credit                                   | 3,377              | 23                   | (117)       | 3,004              | 91                   | (114)       |
| Currency/Interest Rate                   | 5,616              | 186                  | (339)       | 5,047              | 192                  | (381)       |
| Equity                                   | 24,569             | 360                  | (95)        | 26,004             | 528                  | (175)       |
| Total Non-Qualifying Hedge Relationships | \$ 184,977         | \$ 4,036             | \$ (2,829)  | \$ 169,400         | \$ 4,776             | \$ (3,190)  |
| Total Derivatives(1)                     | \$ 195,468         | \$ 4,215             | \$ (3,670)  | \$ 180,444         | \$ 4,993             | \$ (4,073)  |

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a net asset of \$460 million as of March 31, 2011 and a net liability of \$70 million as of December 31, 2010, included in Future policy benefits and Fixed maturities, available for sale.

*Cash Flow, Fair Value and Net Investment Hedges*

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

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

|                                                                        | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                        | <b>2011</b>                             | <b>2010</b> |
|                                                                        | <b>(in millions)</b>                    |             |
| <b>Qualifying Hedges</b>                                               |                                         |             |
| <b>Fair value hedges</b>                                               |                                         |             |
| <i>Interest Rate</i>                                                   |                                         |             |
| Realized investment gains (losses), net                                | \$ 30                                   | \$ (13)     |
| Net investment income                                                  | (31)                                    | (43)        |
| Interest expense (increase)/decrease                                   | 2                                       | 3           |
| Interest credited to policyholder account balances (increase)/decrease | 16                                      | 18          |
| <i>Currency</i>                                                        |                                         |             |
| Realized investment gains (losses), net                                | (29)                                    | 33          |
| Net investment income                                                  | (1)                                     | (1)         |
| <b>Total fair value hedges</b>                                         | <b>(13)</b>                             | <b>(3)</b>  |
| <b>Cash flow hedges</b>                                                |                                         |             |
| <i>Interest Rate</i>                                                   |                                         |             |
| Interest expense (increase)/decrease                                   | (5)                                     | (5)         |
| Interest credited to policyholder account balances (increase)/decrease | (1)                                     | (1)         |
| Accumulated other comprehensive income (loss)(1)                       | 10                                      | (7)         |
| <i>Currency/Interest Rate</i>                                          |                                         |             |
| Net investment income                                                  | (2)                                     | (3)         |
| Other income                                                           | 3                                       | (4)         |
| Accumulated other comprehensive income (loss)(1)                       | (70)                                    | 68          |
| <b>Total cash flow hedges</b>                                          | <b>(65)</b>                             | <b>48</b>   |
| <b>Net investment hedges</b>                                           |                                         |             |
| <i>Currency</i>                                                        |                                         |             |
| Accumulated other comprehensive income (loss)(1)                       | (9)                                     | 6           |
| <i>Currency/Interest Rate</i>                                          |                                         |             |
| Accumulated other comprehensive income (loss)(1)                       | 38                                      | 38          |
| <b>Total net investment hedges</b>                                     | <b>29</b>                               | <b>44</b>   |
| <b>Non-qualifying Hedges</b>                                           |                                         |             |
| Realized investment gains (losses), net                                |                                         |             |
| Interest Rate                                                          | (294)                                   | 409         |
| Currency                                                               | (17)                                    | 78          |
| Currency/Interest Rate                                                 | (3)                                     | 86          |
| Credit                                                                 | (75)                                    | (46)        |

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|                                               |                 |               |
|-----------------------------------------------|-----------------|---------------|
| Equity                                        | (389)           | (290)         |
| Embedded Derivatives (Interest/Equity/Credit) | 635             | 327           |
| Total non-qualifying hedges                   | \$ (143)        | \$ 564        |
| <b>Total Derivative Impact</b>                | <b>\$ (192)</b> | <b>\$ 653</b> |

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

For the period ending March 31, 2011, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company's results of operations and there were no material amounts

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reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

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

|                                                                          | (in millions) |
|--------------------------------------------------------------------------|---------------|
| Balance, December 31, 2010                                               | \$ (261)      |
| Net deferred losses on cash flow hedges from January 1 to March 31, 2011 | (65)          |
| Amount reclassified into current period earnings                         | 5             |
| Balance, March 31, 2011                                                  | \$ (321)      |

Using March 31, 2011 values, it is anticipated that a pre-tax loss of approximately \$33 million will be reclassified from Accumulated other comprehensive income (loss) to earnings during the subsequent twelve months ending March 31, 2012, offset by amounts pertaining to the hedged items. As of March 31, 2011, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is approximately 12 years. Income amounts deferred in Accumulated other comprehensive income (loss) as a result of cash flow hedges are included in Net unrealized investment gains (losses) in the Consolidated Statements of Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss) was \$(44) million and \$(73) million as of March 31, 2011 and December 31, 2010, respectively.

***Credit Derivatives Written***

The following tables set forth the Company's exposure from credit derivatives where the Company has written credit protection, excluding a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in externally-managed investments in the European market, by NAIC rating of the underlying credits as of March 31, 2011 and December 31, 2010.

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| NAIC Designation(1) | Single Name |            | March 31, 2011<br>First to Default Basket |            | Total    |            |
|---------------------|-------------|------------|-------------------------------------------|------------|----------|------------|
|                     | Notional    | Fair Value | Notional                                  | Fair Value | Notional | Fair value |
|                     |             |            |                                           |            |          |            |
| 1                   | \$ 795      | \$ 5       | \$ 0                                      | \$ 0       | \$ 795   | \$ 5       |
| 2                   | 25          | 0          | 0                                         | 0          | 25       | 0          |
| Subtotal            | 820         | 5          | 0                                         | 0          | 820      | 5          |
| 3                   | 0           | 0          | 0                                         | 0          | 0        | 0          |
| 4                   | 0           | 0          | 0                                         | 0          | 0        | 0          |
| 5                   | 0           | 0          | 0                                         | 0          | 0        | 0          |
| 6                   | 0           | 0          | 0                                         | 0          | 0        | 0          |
| Subtotal            | 0           | 0          | 0                                         | 0          | 0        | 0          |
| Total               | \$ 820      | \$ 5       | \$ 0                                      | \$ 0       | \$ 820   | \$ 5       |

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| NAIC Designation(1) | Single Name |            | December 31, 2010<br>First to Default Basket |            | Total    |            |
|---------------------|-------------|------------|----------------------------------------------|------------|----------|------------|
|                     | Notional    | Fair Value | Notional<br>(in millions)                    | Fair Value | Notional | Fair value |
| 1                   | \$ 295      | \$ 3       | \$ 0                                         | \$ 0       | \$ 295   | \$ 3       |
| 2                   | 25          | 0          | 0                                            | 0          | 25       | 0          |
| Subtotal            | 320         | 3          | 0                                            | 0          | 320      | 3          |
| 3                   | 0           | 0          | 0                                            | 0          | 0        | 0          |
| 4                   | 0           | 0          | 0                                            | 0          | 0        | 0          |
| 5                   | 0           | 0          | 0                                            | 0          | 0        | 0          |
| 6                   | 0           | 0          | 0                                            | 0          | 0        | 0          |
| Subtotal            | 0           | 0          | 0                                            | 0          | 0        | 0          |
| Total               | \$ 320      | \$ 3       | \$ 0                                         | \$ 0       | \$ 320   | \$ 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.

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

| Industry                    | March 31, 2011 |            | December 31, 2010 |            |
|-----------------------------|----------------|------------|-------------------|------------|
|                             | Notional       | Fair Value | Notional          | Fair Value |
|                             | (in millions)  |            |                   |            |
| Corporate Securities:       |                |            |                   |            |
| Manufacturing               | \$ 40          | \$ 0       | \$ 40             | \$ 0       |
| Utilities                   | 0              | 0          | 0                 | 0          |
| Finance                     | 500            | 3          | 0                 | 0          |
| Services                    | 25             | 0          | 25                | 0          |
| Energy                      | 20             | 0          | 20                | 0          |
| Transportation              | 25             | 0          | 25                | 0          |
| Retail and Wholesale        | 20             | 0          | 20                | 0          |
| Other(1)                    | 190            | 2          | 190               | 3          |
| First to Default Baskets(2) | 0              | 0          | 0                 | 0          |
| Total Credit Derivatives    | \$ 820         | \$ 5       | \$ 320            | \$ 3       |

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- (1) Includes the following industries: food/beverage, aerospace/defense, chemical, and others.
- (2) Credit default baskets may include various industry categories.

The Company entered into a credit derivative that will require the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. The notional of this credit derivative is \$500 million and the fair value as of March 31, 2011 and December 31, 2010 was a liability of \$26 million and \$26 million, respectively. No collateral was pledged in either period.

The Company holds certain externally-managed investments in the European market which contain embedded derivatives whose fair value are primarily driven by changes in credit spreads. These investments are

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**PRUDENTIAL FINANCIAL, INC.**

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

medium-term notes that are collateralized by investment portfolios primarily consisting of investment grade European fixed income securities, including corporate bonds and asset-backed securities, and derivatives, as well as varying degrees of leverage. The notes have a stated coupon and provide a return based on the performance of the underlying portfolios and the level of leverage. The Company invests in these notes to earn a coupon through maturity, consistent with its investment purpose for other debt securities. The notes are accounted for under U.S. GAAP as available for sale fixed maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Equity under the heading Accumulated other comprehensive income (loss) and changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. The Company's maximum exposure to loss from these investments was \$786 million and \$754 million at March 31, 2011 and December 31, 2010, respectively.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of March 31, 2011 and December 31, 2010, the Company had \$2.057 billion and \$2.184 billion of outstanding notional amounts, respectively, reported at fair value as a liability of \$73 million and an asset of less than \$1 million, respectively.

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

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

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

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

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

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|                                               | Three Months Ended<br>March 31, |        |
|-----------------------------------------------|---------------------------------|--------|
|                                               | 2011                            | 2010   |
|                                               | (in millions)                   |        |
| <b>Asset management fees and other income</b> |                                 |        |
| Interest Rate                                 | \$ 2                            | \$ (2) |
| Commodity                                     | 24                              | 12     |
| Currency                                      | 12                              | 7      |
| Equity                                        | 0                               | 3      |
| Total asset management fees and other income  | \$ 38                           | \$ 20  |

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**PRUDENTIAL FINANCIAL, INC.**

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

***Credit Risk***

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

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

Under fair value measurements, the Company incorporates the market's perception of its own and the counterparty's non-performance risk in determining the fair value of the portion of its OTC derivative assets and liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company's own credit spread a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company's counterparty's credit spread is applied to OTC derivative net asset positions.

Certain of the Company's derivative agreements with some of its counterparties contain credit-risk related triggers. If the Company's credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative or demand immediate full collateralization on derivative instruments in net liability positions. If a downgrade occurred and the derivative positions were terminated, the Company anticipates it would be able to replace the derivative positions with other counterparties in the normal course of business. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position were \$548 million as of March 31, 2011. In the normal course of business the Company has posted collateral related to these instruments of \$577 million as of March 31, 2011. If the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2011, the Company estimates that it would be required to post a maximum of \$19 million of additional collateral to its certain counterparties.

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

**Commitments and Guarantees**

*Commercial Mortgage Loan Commitments*

|                                                                       | As of March<br>31,<br>2011<br>(in millions) |
|-----------------------------------------------------------------------|---------------------------------------------|
| Total outstanding mortgage loan commitments                           | \$ 2,959                                    |
| Portion of commitment where prearrangement to sell to investor exists | \$ 1,350                                    |

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value.

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In certain of these transactions, the Company prearranges that it will sell the loan to an investor, including to governmental sponsored entities as discussed below, after the Company funds the loan.

***Commitments to Purchase Investments (excluding Commercial Mortgage Loans)***

|                                                                                                      | As of March<br>31,<br>2011<br>(in millions) |
|------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Expected to be funded from the general account and other operations outside the separate accounts(1) | \$ 5,144                                    |
| Expected to be funded from separate accounts                                                         | \$ 1,568                                    |
| Portion of separate account commitments with recourse to Prudential Insurance                        | \$ 939                                      |

(1) Includes \$500 million related to the Company's agreement with the Fosun Group (Fosun) to create a private equity fund, to be managed by Fosun, for the Chinese marketplace.

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts. Some of the separate account commitments have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due.

***Guarantees of Investee Debt***

|                                                                                          | As of March<br>31,<br>2011<br>(in millions) |
|------------------------------------------------------------------------------------------|---------------------------------------------|
| Total guarantees of debt issued by entities in which the separate accounts have invested | \$ 2,146                                    |
| Amount of above guarantee that is limited to separate account assets                     | \$ 2,075                                    |
| Accrued liability associated with guarantee                                              | \$ 0                                        |

A number of guarantees provided by the Company relate to real estate investments held in its separate accounts, in which entities that the separate account has invested in have borrowed funds, and the Company has guaranteed their obligations. The Company provides these guarantees to assist these entities in obtaining financing. The Company's maximum potential exposure under these guarantees is mostly limited to the assets of the separate account. The exposure that is not limited to the separate account assets relates to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next fifteen years. At March 31, 2011, the Company's assessment is that it is unlikely payments will be required. Any payments that may become required under these guarantees would either first be

reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide rights to obtain the underlying collateral.

***Guarantee of Retail Development Project Costs***

Previously, the Company had provided a guarantee to a syndication of lenders in connection with a retail development project in Singapore that is 50% co-owned by the Company and an unconsolidated real estate fund managed by the Company. The principal provisions in the guarantee required that the loan-to-value ratio of the retail development project be maintained at a specified level. If that loan-to-value ratio was not maintained, the Company and its co-owner would be required to jointly and severally pay down the loan balance to obtain the required loan-to-value ratio. Other obligations under the guarantee included guaranteeing the interest-servicing

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on the loan on a proportionate basis and undertaking to complete the project and fund all development costs, including cost overruns. On October 20, 2010, the Company entered into a contract to sell the majority of its ownership interest in the project. During the first quarter of 2011, the loan was refinanced and, as a result, the Company's obligations under the guarantee have expired. The sale is expected to be completed during 2011.

***Indemnification of Securities Lending Transactions***

|                                                                                             | As of March<br>31,<br>2011<br>(in millions) |
|---------------------------------------------------------------------------------------------|---------------------------------------------|
| Indemnification provided to mutual fund and separate account clients for securities lending | \$ 11,269                                   |
| Fair value of related collateral associated with above indemnifications                     | \$ 11,508                                   |
| Accrued liability associated with guarantee                                                 | \$ 0                                        |

In the normal course of business, the Company may facilitate securities lending transactions on behalf of mutual funds and separate accounts for which the Company is the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the mutual funds or separate accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with the securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the mutual fund or separate account at the inception of the loan equal to or greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

***Credit Derivatives Written***

|                                                            | As of March<br>31,<br>2011<br>(in millions) |
|------------------------------------------------------------|---------------------------------------------|
| Credit derivatives written maximum amount at risk          | \$ 820                                      |
| Liability associated with guarantee, carried at fair value | \$ 5                                        |

As discussed in Note 14, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security. The Company's maximum amount at risk under these credit derivatives listed above assumes the value of the underlying referenced securities become worthless. These credit derivatives generally have maturities of less than 10 years.

*Guarantees of Asset Values*

|                                                            | As of March<br>31,<br>2011<br>(in millions) |
|------------------------------------------------------------|---------------------------------------------|
| Guaranteed value of third parties assets                   | \$ 29,253                                   |
| Fair value of collateral supporting these assets           | \$ 29,860                                   |
| Liability associated with guarantee, carried at fair value | \$ 3                                        |

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Company's balance sheet.

***Guarantees of Credit Enhancements***

|                                                                                                     | As of March<br>31,<br>2011<br>(in millions) |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------|
| Guarantees of credit enhancements of debt instruments associated with commercial real estate assets | \$ 222                                      |
| Fair value of properties and associated tax credits that secure the guarantee                       | \$ 256                                      |
| Accrued liability associated with guarantee                                                         | \$ 0                                        |

The Company arranges for credit enhancements of certain debt instruments that provide financing primarily for affordable multi-family real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt instruments. The remaining contractual maturities for these guarantees are up to fifteen years. The Company's obligations to reimburse required credit enhancement payments are secured by mortgages on the related real estate. The Company receives certain ongoing fees for providing these enhancement arrangements and anticipates the extinguishment of its obligation under these enhancements prior to maturity through the aggregation and transfer of its positions to a substitute enhancement provider.

***Indemnification of Serviced Mortgage Loans***

|                                                                                              | As of March<br>31,<br>2011<br>(in millions) |
|----------------------------------------------------------------------------------------------|---------------------------------------------|
| Maximum exposure under indemnification agreements for mortgage loans serviced by the Company | \$ 1,099                                    |
| First-loss exposure portion of above                                                         | \$ 355                                      |
| Accrued liability associated with guarantees                                                 | \$ 28                                       |

As part of the commercial mortgage activities of the Company's Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and make payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company's percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government

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sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company services \$8,521 million of mortgages subject to these loss-sharing arrangements as of March 31, 2011, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of March 31, 2011, these mortgages had an average debt service coverage ratio of 1.71 times and an average loan-to-value ratio of 71%. The Company had losses of \$1 million related to the indemnifications that were settled in the first three months of 2011. During the first three months of 2010, the Company experienced no such losses.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Contingent Consideration***

|                                                                         | As of March<br>31,<br>2011<br>(in millions) |
|-------------------------------------------------------------------------|---------------------------------------------|
| Maximum potential contingent consideration associated with acquisitions | \$ 105                                      |

In connection with certain acquisitions, the Company has agreed to pay additional consideration in future periods, contingent upon the attainment by the acquired entity of defined operating objectives. These arrangements will be resolved over the following two years. Any such payments would result in increases in intangible assets, such as goodwill.

***Other Guarantees***

|                                                             | As of March<br>31,<br>2011<br>(in millions) |
|-------------------------------------------------------------|---------------------------------------------|
| Other guarantees where amount can be determined             | \$ 141                                      |
| Accrued liability for other guarantees and indemnifications | \$ 8                                        |

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

***Contingent Liabilities***

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

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. The Company is currently being examined by a third party auditor on behalf of 33 U.S. jurisdictions for compliance with the unclaimed property laws of these jurisdictions. It is possible that this audit may result in additional payments of abandoned funds to U.S. jurisdictions and to changes in the Company's practices and procedures for the identification of escheatable funds, which could impact claim payments and reserves, among other consequences.

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 statements.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)*****Litigation and Regulatory Matters***

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

**Individual Life and Group Insurance**

In January 2011, a purported state-wide class action, *Garcia v. The Prudential Insurance Company of America* was dismissed by the Second Judicial District Court, Washoe County, Nevada. The complaint is brought on behalf of Nevada beneficiaries of life insurance policies sold by the Company for which, unless the beneficiaries elected another settlement method, death benefits were placed in retained asset accounts that earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries. The complaint alleges that by failing to disclose material information about the accounts, the Company wrongfully delayed payment and improperly retained undisclosed profits, and seeks damages, injunctive relief, attorneys' fees and prejudgment and post-judgment interest. In February 2011, plaintiff appealed the dismissal. As previously reported, in December 2009, an earlier purported nationwide class action raising substantially similar allegations brought by the same plaintiff in the United States District Court for the District of New Jersey, *Garcia v. Prudential Insurance Company of America*, was dismissed. In December 2010, a purported state-wide class action complaint, *Phillips v. Prudential Financial, Inc.*, was filed in the Circuit Court of the First Judicial Circuit, Williamson County, Illinois. The complaint makes allegations under Illinois law, substantially similar to the Garcia cases, on behalf of a class of Illinois residents whose death benefits were settled by retained assets accounts. In January 2011, the case was removed to the United States District Court for the Southern District of Illinois. In March 2011, the complaint was amended to drop the Company as a defendant and add Pruco Life Insurance Company as a defendant. The matter is now captioned *Phillips v. Prudential Insurance and Pruco Life Insurance Company*.

In July 2010, a purported nationwide class action that makes allegations similar to those in the *Garcia* and *Phillips* actions relating to retained asset accounts of beneficiaries of a group life insurance contract owned by the United States Department of Veterans Affairs ( VA Contract ) that covers the lives of members and veterans of the U.S. armed forces, *Lucey et al. v. Prudential Insurance Company of America*, was filed in the United States District Court for the District of Massachusetts. The complaint challenges the use of retained asset accounts to settle death benefit claims, asserting violations of federal and state law, breach of contract and fraud and seeking compensatory and treble damages and equitable relief. In October 2010, the Company filed a motion to dismiss the complaint. In November 2010, a second purported nationwide class action brought on behalf of the same beneficiaries of the VA Contract, *Phillips v. Prudential Insurance Company of America and Prudential Financial, Inc.*, was filed in the United States District Court for the District of New Jersey, and makes substantially the same claims. In November and December 2010, two additional actions brought on behalf of the same putative class, alleging substantially the same claims and the same relief, *Garrett v. The Prudential Insurance Company of America and Prudential Financial, Inc.* and *Witt v. The Prudential Insurance Company of America* were filed in the United States District Court for the District of New Jersey. In February 2011, *Phillips, Garrett and Witt* were transferred to the United States District Court for the Western District of Massachusetts by the Judicial Panel for Multi-District Litigation and consolidated with the *Lucey* matter as *In re Prudential Insurance Company of America SGLI/VGLI Contract Litigation*. In March 2011, the motion to dismiss was denied.



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**PRUDENTIAL FINANCIAL, INC.**

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

In September 2010, *Huffman v. The Prudential Insurance Company*, a purported nationwide class action brought on behalf of beneficiaries of group life insurance contracts owned by ERISA-governed employee welfare benefit plans was filed in the United States District Court for the Eastern District of Pennsylvania, alleging that using retained asset accounts in employee welfare benefit plans to settle death benefit claims violates ERISA and seeking injunctive relief and disgorgement of profits. The Company moved to dismiss the complaint. In April 2011, the Company withdrew its motion to dismiss the complaint.

In July 2010, the Company, along with other life insurance industry participants, received a formal request for information from the State of New York Attorney General's Office in connection with its investigation into industry practices relating to the use of retained asset accounts. In August 2010, the Company received a similar request for information from the State of Connecticut Attorney General's Office. The Company is cooperating with these investigations. The Company has also been contacted by state insurance regulators and other governmental entities, including the U.S. Department of Veterans Affairs and Congressional committees regarding retained asset accounts. These matters may result in additional investigations, information requests, claims, hearings, litigation and adverse publicity.

In February 2011, a fifth amended complaint was filed in the United States District Court for the District of New Jersey in *Clark v. Prudential Insurance Company*. The complaint brought on behalf of a purported class of California, Illinois, Ohio and Texas residents who purchased individual health insurance policies alleges that Prudential failed to disclose that it had ceased selling this type of policy in 1981 and that, as a result, premiums would increase significantly. The complaint alleges claims of fraudulent misrepresentation and omission, breach of the duty of good faith and fair dealing, and California's Unfair Competition Law and seeks compensatory and punitive damages. The matter was originally filed in 2008 and certain of the claims in the first four complaints were dismissed.

In April 2009, a purported nationwide class action, *Schultz v. The Prudential Insurance Company of America*, was filed in the United States District Court for the Northern District of Illinois. In January 2010, the court dismissed the complaint without prejudice. In February 2010, plaintiff sought leave to amend the complaint to add another plaintiff and to name the ERISA welfare plans in which they were participants individually and as representatives of a purported defendant class of ERISA welfare plans for which Prudential offset benefits. The proposed amended complaint alleged that Prudential Insurance and the welfare plans violated ERISA by offsetting family Social Security benefits against Prudential contract benefits and seeks a declaratory judgment that the offsets are unlawful as they are not loss of time benefits and recovery of the amounts by which the challenged offsets reduced the disability payments. In August 2010, the court denied leave to amend as to Prudential and plaintiffs subsequently filed a third amended complaint asserting claims on behalf of a purported nationwide class against a purported defendant class of ERISA welfare plans for which Prudential offset family Social Security benefits. The action, now captioned *Schultz v. Aviall, Inc. Long Term Disability Plan*, asserts the same ERISA violations. In December 2010, an action alleging substantially similar ERISA violations as in the *Schultz* action, *Koehn v. Fireman's Fund Insurance Company Long Term Disability Plan*, was filed in the United States District Court for the Northern District of California. The *Koehn* complaint, naming only the plan as defendant, asserts that the defendant plan's long term disability benefits are insured by Prudential and that the terms of the plan were violated by offsetting family Social Security benefits against Prudential contract benefits. The Company had indemnified the defendant plans in both *Schultz* and *Koehn*. In March 2011, *Koehn* settled in principle. In April 2011, *Schultz* was dismissed.

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



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

*et al.* The complaints allege that an alternative dispute resolution agreement entered into among Prudential Insurance, over 350 claimants who are current and former Prudential Insurance employees, and Leeds Morelli & Brown (the law firm representing the claimants) was illegal and that Prudential Insurance conspired with Leeds Morelli & Brown to commit fraud, malpractice, breach of contract, and violate racketeering laws by advancing legal fees to the law firm with the purpose of limiting Prudential's liability to the claimants. In 2004, the Superior Court sealed these lawsuits and compelled them to arbitration. In May 2006, the Appellate Division reversed the trial court's decisions, held that the cases were improperly sealed, and should be heard in court rather than arbitrated. In March 2007, the court granted plaintiffs' motion to amend the complaint to add over 200 additional plaintiffs and a claim under the New Jersey discrimination law but denied without prejudice plaintiffs' motion for a joint trial on liability issues. In June 2007, Prudential Financial and Prudential Insurance moved to dismiss the complaint. In November 2007, the court granted the motion, in part, and dismissed the commercial bribery and conspiracy to commit malpractice claims, and denied the motion with respect to other claims. In January 2008, plaintiffs filed a demand pursuant to New Jersey law stating that they were seeking damages in the amount of \$6.5 billion. In February 2010, the New Jersey Supreme Court assigned the cases for centralized case management to the Superior Court, Bergen County. The Company participated in a court-ordered mediation that has resulted in a settlement in principle. In March and April 2011, 188 of the 235 plaintiffs settled and their claims were dismissed. The remaining plaintiffs will participate in a court-ordered proceeding in June 2011 before any further actions may be taken. Amounts paid in settlement were within existing reserves for this matter.

**Retirement Solutions and Investment Management**

In October 2007, Prudential Retirement Insurance and Annuity Co. (PRIAC) filed an action in the United States District Court for the Southern District of New York, *Prudential Retirement Insurance & Annuity Co. v. State Street Global Advisors*, in PRIAC's fiduciary capacity and on behalf of certain defined benefit and defined contribution plan clients of PRIAC, against an unaffiliated asset manager, State Street Global Advisors (SSgA) and SSgA's affiliate, State Street Bank and Trust Company (State Street). This action seeks, among other relief, restitution of certain losses attributable to certain investment funds sold by SSgA as to which PRIAC believes SSgA employed investment strategies and practices that were misrepresented by SSgA and failed to exercise the standard of care of a prudent investment manager. Given the unusual circumstances surrounding the management of these SSgA funds and in order to protect the interests of the affected plans and their participants while PRIAC pursues these remedies, PRIAC implemented a process under which affected plan clients that authorized PRIAC to proceed on their behalf have received payments from funds provided by PRIAC for the losses referred to above. The Company's consolidated financial statements, and the results of the Retirement segment included in the Company's U.S. Retirement Solutions and Investment Management Division, for the year ended December 31, 2007 include a pre-tax charge of \$82 million, reflecting these payments to plan clients and certain related costs. In September 2008, the United States District Court for the Southern District of New York denied the State Street defendants' motion to dismiss claims for damages and other relief under Section 502(a)(2) of ERISA, but dismissed the claims for equitable relief under Section 502(a)(3) of ERISA. In October 2008, defendants answered the complaint and asserted counterclaims for contribution and indemnification, defamation and violations of Massachusetts' unfair and deceptive trade practices law. In February 2010, State Street reached a settlement with the SEC over charges that it misled investors about their exposure to subprime investments, resulting in significant investor losses in mid-2007. Under the settlement, State Street paid approximately \$313 million in disgorgement, pre-judgment interest, penalty and compensation into a Fair Fund that was distributed to injured investors and consequently, State Street paid PRIAC, for deposit into its separate accounts, approximately \$52.5 million. By the terms of the settlement, State Street's payment to PRIAC does not resolve any claims PRIAC has against State Street or SSgA in connection with the losses in the investment funds SSgA managed, and the penalty component of State Street's SEC settlement (approximately

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

\$8.4 million) cannot be used to offset or reduce compensatory damages in the action against State Street and SSgA. In June 2010, PRIAC moved for partial summary judgment on State Street's counterclaims. At the same time, State Street moved for summary judgment on PRIAC's complaint. In March 2011, the district court denied State Street's motion for summary judgment and denied in part and granted in part PRIAC's motion for partial summary judgment on State Street's counterclaims.

In June 2009, special bankruptcy counsel for Lehman Brothers Holdings Inc. (LBHI), Lehman Brothers Special Financing (LBSF) and certain of their affiliates made a demand of Prudential Global Funding LLC (PGF), a subsidiary of the Company, for the return of a portion of the \$550 million in collateral delivered by LBSF to PGF pursuant to swap agreements and a cross margining and netting agreement between PGF, LBSF and Lehman Brothers Finance S.A. a/k/a Lehman Brothers Finance AG (Lehman Switzerland), a Swiss affiliate that is subject to insolvency proceedings in the United States and Switzerland. LBSF claims that PGF wrongfully applied the collateral to Lehman Switzerland's obligations in violation of the automatic stay in LBSF's bankruptcy case, which is jointly administered under *In re Lehman Brothers Holdings Inc.* in the United States Bankruptcy Court in the Southern District of New York (the Lehman Chapter 11 Cases). In August 2009, PGF filed a declaratory judgment action in the same court against LBSF, Lehman Switzerland and LBHI (as guarantor of LBSF and Lehman Switzerland under the swap agreements) seeking an order that (a) PGF had an effective lien on the collateral that secured the obligations of both LBSF (\$197 million) and Lehman Switzerland (\$488 million) and properly foreclosed on the collateral leaving PGF with an unsecured \$135 million claim against LBSF (and LBHI as guarantor) or, in the alternative, (b) PGF was entitled, under the Bankruptcy Code, to set off amounts owed by Lehman Switzerland against the collateral and the automatic stay was inapplicable. The declaratory judgment action is captioned *Prudential Global Funding LLC v. Lehman Brothers Holdings Inc., et al.* In addition, PGF filed timely claims against LBSF and LBHI in the Lehman Chapter 11 Cases for any amounts due under the swap agreements, depending on the results of the declaratory judgment action. In October 2009, LBSF and LBHI answered in the declaratory judgment action and asserted counterclaims that PGF breached the swap agreement, seeking a declaratory judgment that PGF had a perfected lien on only \$178 million of the collateral that could be applied only to amounts owed by LBSF and no right of set off against Lehman Switzerland's obligations, as well as the return of collateral in the amount of \$372 million plus interest and the disallowance of PGF's claims against LBSF and LBHI. LBSF and LBHI also asserted cross-claims against Lehman Switzerland seeking return of the collateral. In December 2009, PGF filed a motion for judgment on the pleadings to resolve the matter in its favor. In February 2010, LBSF and LBHI cross-moved for judgment on the pleadings. In March 2011, the matter settled in principle. Under the terms of the settlement, the Company will make a payment in return for Lehman's release of the demand for the return of collateral. In addition, the Company will pursue certain allowed claims in the bankruptcy proceedings. See Segment Information within Note 11 to the Unaudited Interim Consolidated Financial Statements and Legal Proceedings within Part II, Item 1 for additional information.

**Other Matters***Mutual Fund Market Timing Practices*

In August 2006, Prudential Equity Group, LLC (PEG), a wholly owned subsidiary of the Company, reached a resolution of the previously disclosed regulatory and criminal investigations into deceptive market related activities involving PEG's former Prudential Securities operations. The settlements relate to conduct that generally occurred between 1999 and 2003 involving certain former Prudential Securities brokers in Boston and certain other branch offices in the U.S., their supervisors, and other members of the Prudential Securities control structure with responsibilities that related to the market timing activities, including certain former members of Prudential Securities senior management. The Prudential Securities operations were contributed to a joint venture



**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

with Wachovia Corporation in July 2003, but PEG retained liability for the market timing related activities. In connection with the resolution of the investigations, PEG entered into separate settlements with each of the United States Attorney for the District of Massachusetts ( USAO ), the Secretary of the Commonwealth of Massachusetts, Securities Division, SEC, the National Association of Securities Dealers, the New York Stock Exchange, the New Jersey Bureau of Securities and the NYAG. These settlements resolved the investigations by the above named authorities into these matters as to all Prudential entities without further regulatory proceedings or filing of charges so long as the terms of the settlement are followed and provided, in the case of the settlement agreement reached with the USAO, that the USAO has reserved the right to prosecute PEG if there is a material breach by PEG of that agreement during its five year term and in certain other specified events. Under the terms of the settlements, PEG paid \$270 million into a Fair Fund administered by the SEC to compensate those harmed by the market timing activities. In addition, \$330 million was paid in fines and penalties. Pursuant to the settlements, PEG retained, at PEG's ongoing cost and expense, the services of an Independent Distribution Consultant acceptable to certain of the authorities to develop a proposed distribution plan for the distribution of Fair Fund amounts according to a methodology developed in consultation with and acceptable to certain of the authorities. The plan has been accepted and distribution of the Fair Fund is substantially complete. In addition, as part of the settlements, PEG agreed, among other things, to continue to cooperate with the above named authorities in any litigation, ongoing investigations or other proceedings relating to or arising from their investigations into these matters. In connection with the settlements, the Company agreed with the USAO, among other things, to cooperate with the USAO and to maintain and periodically report on the effectiveness of its compliance procedures.

*Corporate*

In March 2009, a purported class action, *Bauer v. Prudential Financial, et al.*, was filed in the United States District Court for the District of New Jersey. The case names as defendants, the Company, certain Company Directors, the Chief Financial Officer, Controller and former Chief Executive Officer and former Principal Accounting Officer, underwriters and the Company's independent auditors. The complaint, brought on behalf of purchasers of the Company's 9% Junior Subordinated Notes (retail hybrid subordinated debt), alleges that the Company's March 2006 Form S-3 Registration Statement and Prospectus and the June 2008 Prospectus Supplement, both of which incorporated other public filings, contained material misstatements or omissions. In light of the Company's disclosures in connection with its 2008 financial results, plaintiffs contend that the earlier offering documents failed to disclose impairments in the Company's asset-backed securities collateralized with subprime mortgages and goodwill associated with certain subsidiaries and other assets, and that the Company had inadequate controls relating to such reporting. The complaint asserts violations of the Securities Act of 1933, alleging Section 11 claims against all defendants, Section 12(a)(2) claims against the Company and underwriters and Section 15 claims against the individual defendants, and seeks unspecified compensatory and rescission damages, interest, costs, fees, expenses and such injunctive relief as may be deemed appropriate by the court. In April 2009, two additional purported class action complaints were filed in the same court, *Haddock v. Prudential Financial, Inc. et al.* and *Pinchuk v. Prudential Financial, Inc. et al.* The complaints essentially allege the same claims and seek the same relief as *Bauer*. In June 2009, *Pinchuk* was voluntarily dismissed and the *Haddock* and *Bauer* matters were consolidated. In July 2009, an amended consolidated complaint was filed that added claims regarding contingent liability relating to the auction rate securities markets and reserves relating to annuity contract holders. The complaint restates the claims regarding impairments related to mortgage-backed securities, but does not include prior claims regarding goodwill impairments. The complaint names all of the same defendants as the prior complaints, with the exception of the Company's independent auditors. In September 2009, defendants filed a motion to dismiss the complaint. In June 2010, the court dismissed without prejudice the claim relating to contingent liability in connection with auction rate securities and denied the motion with respect to the other claims. In July 2010, plaintiffs filed an amended complaint restating their contingent liability claim and, in September 2010, defendants moved to dismiss the restated claim. In April 2011, the matter settled in principle. The settlement will be subject to court approval.

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### **PRUDENTIAL FINANCIAL, INC.**

#### **Notes to Unaudited Interim Consolidated Financial Statements (Continued)**

##### *Securities Underwriting*

Prudential Securities was a defendant in a number of industry-wide purported class actions in the United States District Court for the Southern District of New York relating to its former securities underwriting business, captioned *In re: Initial Public Offering Securities Litigation*, alleging, among other things, that the underwriters engaged in a scheme involving tying agreements, undisclosed compensation arrangements and research analyst conflicts to manipulate and inflate the prices of shares sold in initial public offerings in violation of the federal securities laws. In September 2009, the court entered a final order approving settlement of the litigation. In October 2009, an appeal of the settlement was filed with the United States Court of Appeals for the Second Circuit.

##### *Other*

In October 2006, a purported class action lawsuit, *Bouder v. Prudential Financial, Inc. and Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey, claiming that Prudential failed to pay overtime to insurance agents in violation of federal and Pennsylvania law, and that improper deductions were made from these agents' wages in violation of state law. The complaint seeks back overtime pay and statutory damages, recovery of improper deductions, interest, and attorneys' fees. In March 2008, the court conditionally certified a nationwide class on the federal overtime claim. Separately, in March 2008, a purported nationwide class action lawsuit was filed in the United States District Court for the Southern District of California, *Wang v. Prudential Financial, Inc. and Prudential Insurance*, claiming that the Company failed to pay its agents overtime and provide other benefits in violation of California and federal law and seeking compensatory and punitive damages in unspecified amounts. In September 2008, *Wang* was transferred to the United States District Court for the District of New Jersey and consolidated with the *Bouder* matter. Subsequent amendments to the complaint have resulted in additional allegations involving purported violations of an additional nine states' overtime and wage payment laws. In February 2010, Prudential moved to decertify the federal overtime class that had been conditionally certified in March 2008 and moved for summary judgment on the federal overtime claims of the named plaintiffs. In July 2010, plaintiffs filed a motion for class certification of the state law claims. In August 2010, the district court granted Prudential's motion for summary judgment, dismissing the federal overtime claims. The motion for class certification of the state law claims is pending.

#### **Summary**

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



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**PRUDENTIAL FINANCIAL, INC.**

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

**16. SUBSEQUENT EVENTS**

On March 11, 2011, Japan experienced a massive earthquake followed by a tsunami which caused extensive damage and loss of life. The Company's operations in Japan include its Life Planner operations and Gibraltar Life operations, which include the recently acquired Star and Edison Businesses. The Gibraltar Life operations, including the Star and Edison Businesses, use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. Therefore, the Unaudited Interim Consolidated Financial Statements as of March 31, 2011 include the results of operations of the Gibraltar Life operations, including the Star and Edison Businesses, for the three months ended February 28, 2011. Due to this one month reporting lag, the impact on these operations of the events in Japan in March of 2011 are not reflected in the Company's results of operations for the three months ended March 31, 2011. However, the Company currently estimates that the impact of claims arising from these events on the Gibraltar Life operations, including the Star and Edison Businesses, will result in a pre-tax charge in the second quarter of 2011 of approximately \$55 million. This is in addition to the pre-tax charge of \$19 million reflected in the Company's Unaudited Interim Consolidated Financial Statements as of March 31, 2011 associated with estimated claims arising from these events in the Life Planner operations.

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Supplemental Combining Statements of Financial Position****March 31, 2011 and December 31, 2010 (in millions)**

|                                                                        | March 31, 2011                      |                             |                   | December 31, 2010                   |                             |                   |
|------------------------------------------------------------------------|-------------------------------------|-----------------------------|-------------------|-------------------------------------|-----------------------------|-------------------|
|                                                                        | Financial<br>Services<br>Businesses | Closed<br>Block<br>Business | Consolidated      | Financial<br>Services<br>Businesses | Closed<br>Block<br>Business | Consolidated      |
| <b>ASSETS</b>                                                          |                                     |                             |                   |                                     |                             |                   |
| Fixed maturities, available for sale, at fair value                    | \$ 186,861                          | \$ 44,956                   | \$ 231,817        | \$ 149,806                          | \$ 45,177                   | \$ 194,983        |
| Fixed maturities, held to maturity, at amortized cost                  | 5,102                               | 0                           | 5,102             | 5,226                               | 0                           | 5,226             |
| Trading account assets supporting insurance liabilities, at fair value | 18,314                              | 0                           | 18,314            | 17,771                              | 0                           | 17,771            |
| Other trading account assets, at fair value                            | 3,599                               | 159                         | 3,758             | 4,069                               | 156                         | 4,225             |
| Equity securities, available for sale, at fair value                   | 6,286                               | 3,824                       | 10,110            | 4,148                               | 3,593                       | 7,741             |
| Commercial mortgage and other loans                                    | 24,259                              | 8,701                       | 32,960            | 23,324                              | 8,507                       | 31,831            |
| Policy loans                                                           | 5,926                               | 5,346                       | 11,272            | 5,290                               | 5,377                       | 10,667            |
| Other long-term investments                                            | 6,335                               | 1,624                       | 7,959             | 4,589                               | 1,582                       | 6,171             |
| Short-term investments                                                 | 6,094                               | 924                         | 7,018             | 4,133                               | 1,164                       | 5,297             |
| Total investments                                                      | 262,776                             | 65,534                      | 328,310           | 218,356                             | 65,556                      | 283,912           |
| Cash and cash equivalents                                              | 10,512                              | 483                         | 10,995            | 12,447                              | 468                         | 12,915            |
| Accrued investment income                                              | 2,083                               | 677                         | 2,760             | 1,734                               | 643                         | 2,377             |
| Deferred policy acquisition costs                                      | 16,224                              | 749                         | 16,973            | 15,672                              | 763                         | 16,435            |
| Other assets                                                           | 21,066                              | 522                         | 21,588            | 16,161                              | 278                         | 16,439            |
| Separate account assets                                                | 218,382                             | 0                           | 218,382           | 207,776                             | 0                           | 207,776           |
| <b>TOTAL ASSETS</b>                                                    | <b>\$ 531,043</b>                   | <b>\$ 67,965</b>            | <b>\$ 599,008</b> | <b>\$ 472,146</b>                   | <b>\$ 67,708</b>            | <b>\$ 539,854</b> |
| <b>LIABILITIES AND EQUITY</b>                                          |                                     |                             |                   |                                     |                             |                   |
| <b>LIABILITIES</b>                                                     |                                     |                             |                   |                                     |                             |                   |
| Future policy benefits                                                 | \$ 102,404                          | \$ 51,484                   | \$ 153,888        | \$ 82,242                           | \$ 51,632                   | \$ 133,874        |
| Policyholders' account balances                                        | 127,512                             | 5,519                       | 133,031           | 100,905                             | 5,536                       | 106,441           |
| Policyholders' dividends                                               | 340                                 | 3,254                       | 3,594             | 226                                 | 3,152                       | 3,378             |
| Securities sold under agreements to repurchase                         | 2,599                               | 3,151                       | 5,750             | 2,557                               | 3,328                       | 5,885             |
| Cash collateral for loaned securities                                  | 1,522                               | 775                         | 2,297             | 1,614                               | 557                         | 2,171             |
| Income taxes                                                           | 6,057                               | (455)                       | 5,602             | 6,736                               | (383)                       | 6,353             |
| Short-term debt                                                        | 2,432                               | 0                           | 2,432             | 1,982                               | 0                           | 1,982             |
| Long-term debt                                                         | 22,283                              | 1,750                       | 24,033            | 21,903                              | 1,750                       | 23,653            |
| Other liabilities                                                      | 15,662                              | 1,091                       | 16,753            | 14,660                              | 753                         | 15,413            |
| Separate account liabilities                                           | 218,382                             | 0                           | 218,382           | 207,776                             | 0                           | 207,776           |
| Total liabilities                                                      | 499,193                             | 66,569                      | 565,762           | 440,601                             | 66,325                      | 506,926           |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES</b>                          |                                     |                             |                   |                                     |                             |                   |
| <b>EQUITY</b>                                                          |                                     |                             |                   |                                     |                             |                   |
| Accumulated other comprehensive income (loss)                          | 2,515                               | 49                          | 2,564             | 2,932                               | 46                          | 2,978             |
| Other attributed equity                                                | 28,785                              | 1,347                       | 30,132            | 28,100                              | 1,337                       | 29,437            |
| Total attributed equity                                                | 31,300                              | 1,396                       | 32,696            | 31,032                              | 1,383                       | 32,415            |

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|                                     |                   |                  |                   |                   |                  |                   |
|-------------------------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| Noncontrolling interests            | 550               | 0                | 550               | 513               | 0                | 513               |
| Total equity                        | 31,850            | 1,396            | 33,246            | 31,545            | 1,383            | 32,928            |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 531,043</b> | <b>\$ 67,965</b> | <b>\$ 599,008</b> | <b>\$ 472,146</b> | <b>\$ 67,708</b> | <b>\$ 539,854</b> |

*See Notes to Unaudited Interim Supplemental Combining Financial Information*

**Table of Contents****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Supplemental Combining Statements of Operations****Three Months Ended March 31, 2011 and 2010 (in millions)**

|                                                                                                                 | Three Months Ended March 31,        |                                     |              |                                     |                                     |              |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|--------------|-------------------------------------|-------------------------------------|--------------|
|                                                                                                                 | Financial<br>Services<br>Businesses | 2011<br>Closed<br>Block<br>Business | Consolidated | Financial<br>Services<br>Businesses | 2010<br>Closed<br>Block<br>Business | Consolidated |
| <b>REVENUES</b>                                                                                                 |                                     |                                     |              |                                     |                                     |              |
| Premiums                                                                                                        | \$ 4,830                            | \$ 691                              | \$ 5,521     | \$ 3,531                            | \$ 711                              | \$ 4,242     |
| Policy charges and fee income                                                                                   | 948                                 | 0                                   | 948          | 816                                 | 0                                   | 816          |
| Net investment income                                                                                           | 2,308                               | 810                                 | 3,118        | 2,072                               | 800                                 | 2,872        |
| Asset management fees and other income                                                                          | 633                                 | 16                                  | 649          | 921                                 | 7                                   | 928          |
| Realized investment gains (losses), net                                                                         |                                     |                                     |              |                                     |                                     |              |
| Other-than-temporary impairments on fixed maturity securities                                                   | (337)                               | (238)                               | (575)        | (758)                               | (491)                               | (1,249)      |
| Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income         | 258                                 | 213                                 | 471          | 542                                 | 453                                 | 995          |
| Other realized investment gains (losses), net                                                                   | (1)                                 | 55                                  | 54           | 331                                 | 312                                 | 643          |
| Total realized investment gains (losses), net                                                                   | (80)                                | 30                                  | (50)         | 115                                 | 274                                 | 389          |
| Total revenues                                                                                                  | 8,639                               | 1,547                               | 10,186       | 7,455                               | 1,792                               | 9,247        |
| <b>BENEFITS AND EXPENSES</b>                                                                                    |                                     |                                     |              |                                     |                                     |              |
| Policyholders' benefits                                                                                         | 4,619                               | 814                                 | 5,433        | 3,403                               | 840                                 | 4,243        |
| Interest credited to policyholders' account balances                                                            | 789                                 | 34                                  | 823          | 1,200                               | 35                                  | 1,235        |
| Dividends to policyholders                                                                                      | 31                                  | 517                                 | 548          | 26                                  | 491                                 | 517          |
| Amortization of deferred policy acquisition costs                                                               | 443                                 | 16                                  | 459          | 402                                 | 24                                  | 426          |
| General and administrative expenses                                                                             | 2,080                               | 139                                 | 2,219        | 1,674                               | 143                                 | 1,817        |
| Total benefits and expenses                                                                                     | 7,962                               | 1,520                               | 9,482        | 6,705                               | 1,533                               | 8,238        |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b> |                                     |                                     |              |                                     |                                     |              |
|                                                                                                                 | 677                                 | 27                                  | 704          | 750                                 | 259                                 | 1,009        |
| Income tax expense                                                                                              | 182                                 | 8                                   | 190          | 253                                 | 98                                  | 351          |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>                  |                                     |                                     |              |                                     |                                     |              |
|                                                                                                                 | 495                                 | 19                                  | 514          | 497                                 | 161                                 | 658          |
| Equity in earnings of operating joint ventures, net of taxes                                                    | 105                                 | 0                                   | 105          | 10                                  | 0                                   | 10           |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                                                                        |                                     |                                     |              |                                     |                                     |              |
|                                                                                                                 | 600                                 | 19                                  | 619          | 507                                 | 161                                 | 668          |
| Income from discontinued operations, net of taxes                                                               | 14                                  | 0                                   | 14           | 3                                   | 0                                   | 3            |
| <b>NET INCOME</b>                                                                                               |                                     |                                     |              |                                     |                                     |              |
|                                                                                                                 | 614                                 | 19                                  | 633          | 510                                 | 161                                 | 671          |
| Less: Income (loss) attributable to noncontrolling interests                                                    | 25                                  | 0                                   | 25           | (26)                                | 0                                   | (26)         |

|                                                              |        |       |        |        |        |        |
|--------------------------------------------------------------|--------|-------|--------|--------|--------|--------|
| <b>NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.</b> | \$ 589 | \$ 19 | \$ 608 | \$ 536 | \$ 161 | \$ 697 |
|--------------------------------------------------------------|--------|-------|--------|--------|--------|--------|

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

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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.

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**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.

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) addresses the consolidated financial condition of Prudential Financial as of March 31, 2011, compared with December 31, 2010, and its consolidated results of operations for the three months ended March 31, 2011 and 2010. 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, 2010, 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 six segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance division consists of our International Insurance segment. 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 which are reflected in Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

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

#### **Closed Block Business**

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating

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individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 6 to the 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

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paid to, and the reasonable dividend expectations of, holders of the Closed Block policies. We also segregated for accounting purposes the assets that we need to hold outside the Closed Block to meet capital requirements related to the Closed Block policies. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to ultimately decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses.

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

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

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

## **Executive Summary**

Prudential Financial, a financial services leader with approximately \$859 billion of assets under management as of March 31, 2011, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was \$4,709 million, comprised of \$4,213 million in cash and \$496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. See Results of Operations for Financial Services Businesses by Segment International Insurance Division International Insurance for more information on this acquisition.

On March 11, 2011, Japan experienced a massive earthquake followed by a tsunami which caused extensive damage and loss of life. Our operations in Japan include our Life Planner operations and Gibraltar Life operations, which include the recently acquired Star and Edison Businesses. Our results for the first quarter of 2011 include a pre-tax charge of \$19 million associated with estimated claims of the Life Planner

operations arising from these events. The Gibraltar Life operations, including the recently acquired Star and Edison

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Businesses, report results on a one month lag and as such, their results for the first quarter of 2011 do not include the impact of these events. However, we currently estimate that the impact of claims arising from these events on the Gibraltar Life operations will result in a pre-tax charge in the second quarter of 2011 of approximately \$55 million. We have not experienced and do not expect a significant impact to the valuation of our investments or our ability to operate our Japanese businesses as a result of these events.

On April 6, 2011, Prudential Financial entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of its subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. The transaction is expected to close in June 2011. As a result, we have reflected the results of the Global Commodities Business, which historically have been presented in the International Investments segment, as discontinued operations for all periods presented. In addition, the remaining business activities that comprised our International Investments segment have been reclassified to the International Insurance segment. The reclassification of the remaining international investment business activities to the International Insurance segment had no impact on total adjusted operating income or net income of the Financial Services Businesses or the Closed Block Business.

Our financial condition and results of operations as of and for the three months ended March 31, 2011 reflect the following:

Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the first quarter of 2011 was \$589 million.

Pre-tax net realized investment losses and related charges and adjustments of the Financial Services Businesses in the first quarter of 2011 were \$360 million, primarily reflecting the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure and net decreases in the market value of derivatives used to manage investment portfolio duration reflecting changing interest rates, as well as other-than-temporary impairments of fixed maturity and equity securities. Partially offsetting these net losses were net realized investment gains from general account portfolio activities and net gains related to the embedded derivatives and related hedge positions associated with certain of our variable annuity contracts.

Net unrealized gains on general account fixed maturity investments of the Financial Services Businesses amounted to \$4.618 billion as of March 31, 2011, compared to net unrealized gains of \$5.726 billion as of December 31, 2010. Gross unrealized gains decreased from \$8.826 billion as of December 31, 2010 to \$7.945 billion as of March 31, 2011 and gross unrealized losses increased from \$3.100 billion to \$3.327 billion for the same periods primarily reflecting an increase in interest rates. Net unrealized gains on general account fixed maturity investments of the Closed Block Business amounted to \$1.564 billion as of March 31, 2011, compared to net unrealized gains of \$1.671 billion as of December 31, 2010.

Individual Annuity total account values of \$113.8 billion as of March 31, 2011 and gross sales of \$6.8 billion in the first quarter of 2011 represented record highs. Individual Annuity net sales in the first quarter of 2011 were also a record high at \$4.8 billion and represent an increase from \$3.2 billion in the prior year quarter.

Full Service Retirement account values reached a record high of \$146.0 billion at March 31, 2011. Total account values for the Retirement segment also reached a record high of \$214.9 billion.

Asset Management total institutional and retail net flows were \$7.9 billion in the first quarter of 2011, an increase from \$3.1 billion in the prior year quarter which contributed to the record high \$569 billion in assets under management as of March 31, 2011.

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International Insurance constant dollar basis annualized new business premiums were a record high of \$633 million in the first quarter of 2011, including \$85 million from the acquired Star and Edison Businesses, compared to \$406 million in the prior year quarter.

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Individual Life annualized new business premiums were \$65 million in the first quarter of 2011 compared to \$68 million in the prior year quarter.

Group Insurance annualized new business premiums were \$500 million in the first quarter of 2011, an increase from \$346 million in the prior year quarter.

As of March 31, 2011, Prudential Financial, the parent holding company, had cash and short-term investments of \$3.365 billion.

## Results of Operations

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

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the three months ended March 31, 2011 and 2010 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

|                                                                                                  | Three Months Ended<br>March 31,<br>2011      2010<br>(in millions) |              |
|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------|
| Adjusted operating income before income taxes for segments of the Financial Services Businesses: |                                                                    |              |
| Individual Annuities                                                                             | \$ 292                                                             | \$ 244       |
| Retirement                                                                                       | 172                                                                | 169          |
| Asset Management                                                                                 | 154                                                                | 83           |
| <b>Total U.S. Retirement Solutions and Investment Management Division</b>                        | <b>618</b>                                                         | <b>496</b>   |
| Individual Life                                                                                  | 96                                                                 | 91           |
| Group Insurance                                                                                  | 40                                                                 | 53           |
| <b>Total U.S. Individual Life and Group Insurance Division</b>                                   | <b>136</b>                                                         | <b>144</b>   |
| <b>International Insurance</b>                                                                   | <b>672</b>                                                         | <b>491</b>   |
| <b>Total International Insurance Division</b>                                                    | <b>672</b>                                                         | <b>491</b>   |
| <b>Corporate and Other</b>                                                                       | <b>(272)</b>                                                       | <b>(210)</b> |
| Adjusted operating income before income taxes for the Financial Services Businesses              | 1,154                                                              | 921          |
| Reconciling Items:                                                                               |                                                                    |              |
| Realized investment gains (losses), net, and related adjustments                                 | (356)                                                              | 67           |
| Charges related to realized investment gains (losses), net                                       | (4)                                                                | (127)        |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net        | (17)                                                               | 252          |
| Change in experience-rated contract holder liabilities due to asset value changes                | 34                                                                 | (320)        |
| Divested businesses                                                                              | (1)                                                                | (7)          |

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|                                                                                                                                            |        |          |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------|----------|
| Equity in earnings of operating joint ventures                                                                                             | (133)  | (36)     |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses | 677    | 750      |
| Income from continuing operations before income taxes for Closed Block Business                                                            | 27     | 259      |
| Consolidated income from continuing operations before income taxes and equity in earnings of operating joint ventures                      | \$ 704 | \$ 1,009 |

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Results for the three months ended March 31, 2011 presented above reflect the following:

Income from continuing operations before income taxes and equity in earnings of operating joint ventures for the Financial Services Businesses for the first quarter of 2011 was \$677 million, compared to \$750 million for the first quarter of 2010. Adjusted operating income before income taxes for the Financial Services Businesses for the first quarter of 2011 was \$1,154 million, compared to \$921 million for the first quarter of 2010.

Individual Annuities segment results for the first quarter of 2011 increased in comparison to the first quarter of 2010 primarily reflecting higher fee income resulting from the impact of positive net flows and market appreciation on variable annuity account values.

Retirement segment results for the first quarter of 2011 increased in comparison to the first quarter of 2010 driven by higher fees due to an increase in average full service fee-based retirement account values, primarily resulting from market appreciation, and higher fee-based investment-only stable value account values in our institutional investment products business, primarily resulting from net additions. The impact of higher fees was largely offset by higher expenses in the first quarter of 2011.

Asset Management segment results in the first quarter of 2011 increased in comparison to the first quarter of 2010 largely due to improved results from the segment's commercial mortgage activities and increased asset management fees.

Individual Life segment results for the first quarter of 2011 increased from the first quarter of 2010, primarily due to less unfavorable mortality experience, relative to expected levels.

Group Insurance segment results declined in the first quarter of 2011, compared to the first quarter of 2010 primarily reflecting a higher incidence of new long-term disability claims.

International Insurance segment results for the first quarter of 2011 improved from the first quarter of 2010. Results from the segment's Life Planner operations improved in the 2011 period, reflecting the continued growth of our Japanese Life Planner operations, partially offset by a charge of \$19 million associated with estimated claims resulting from the Japanese earthquake and tsunami in March 2011. Results from the segment's Gibraltar Life and Other operations included a pre-tax gain of \$153 million related to shares sold by a consortium of investors that holds a minority interest in China Pacific Insurance (Group) Co., Ltd., and \$34 million of earnings from the acquired Star and Edison Businesses, partially offset by \$47 million of acquisition-related expenses. The remainder of the improvements in results compared to the prior year quarter came primarily from higher earnings from our fixed annuities products which are primarily denominated in U.S. dollars, and from business growth, including growth in protection products reflecting expanding bank channel distribution.

Corporate and Other operations resulted in an increased loss for the first quarter of 2011 compared to the first quarter of 2010 primarily due to higher corporate expenses, and increased interest expense on capital debt, reflecting financing of the acquisition of the Star and Edison Businesses, partially offset by improved investment results.

Realized investment gains (losses), net, and related charges and adjustments for the Financial Services Businesses in the first quarter of 2011 amounted to a loss of \$360 million, primarily reflecting the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure and net decreases in the market value of derivatives used to manage investment portfolio duration reflecting changing interest rates, as well as other-than-temporary impairments of fixed maturity securities and equity securities. Partially offsetting these net losses were net realized investment gains from general account portfolio activities and net gains related to the embedded derivatives and related hedge positions associated with certain of our variable annuity contracts.

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Income from continuing operations before income taxes in the Closed Block Business decreased \$232 million in the first quarter of 2011 compared to the first quarter of 2010, primarily reflecting lower net realized investment gains in the first quarter of 2011.

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### **Accounting Policies & Pronouncements**

#### **Application of Critical Accounting Estimates**

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

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions and require management's most difficult, subjective, or complex judgments:

Deferred policy acquisition and other costs, including value of business acquired;

Goodwill;

Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments;

Policyholder liabilities;

Pension and other postretirement benefits;

Taxes on income; and

Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

A discussion of each of the critical accounting estimates may be found in our Annual Report on Form 10-K for the year ended December 31, 2010, under "Management's Discussion and Analysis of Financial Condition and Results of Operations" Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

#### **Adoption of New Accounting Pronouncements**

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

**Future Adoption of New Accounting Pronouncements**

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

**Table of Contents****Consolidated Results of Operations**

The following table summarizes net income for the Financial Services Businesses and the Closed Block Business for the periods presented.

|                                                                                                                                            | Three Months Ended<br>March 31,<br>2011                      2010<br>(in millions) |         |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|---------|
| <b>Financial Services Businesses by segment:</b>                                                                                           |                                                                                    |         |
| Individual Annuities                                                                                                                       | \$ 267                                                                             | \$ 249  |
| Retirement                                                                                                                                 | 109                                                                                | 250     |
| Asset Management                                                                                                                           | 161                                                                                | 67      |
| Total U.S. Retirement Solutions and Investment Management Division                                                                         | 537                                                                                | 566     |
| Individual Life                                                                                                                            | 122                                                                                | 70      |
| Group Insurance                                                                                                                            | 34                                                                                 | 58      |
| Total U.S. Individual Life and Group Insurance Division                                                                                    | 156                                                                                | 128     |
| International Insurance                                                                                                                    | 209                                                                                | 208     |
| Total International Insurance Division                                                                                                     | 209                                                                                | 208     |
| Corporate and Other                                                                                                                        | (225)                                                                              | (152)   |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses | 677                                                                                | 750     |
| Income tax expense                                                                                                                         | 182                                                                                | 253     |
| Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses                  | 495                                                                                | 497     |
| Equity in earnings of operating joint ventures, net of taxes                                                                               | 105                                                                                | 10      |
| Income from continuing operations for Financial Services Businesses                                                                        | 600                                                                                | 507     |
| Income from discontinued operations, net of taxes                                                                                          | 14                                                                                 | 3       |
| Net income Financial Services Businesses                                                                                                   | 614                                                                                | 510     |
| Less: Income (loss) attributable to noncontrolling interests                                                                               | 25                                                                                 | (26)    |
| Net income of Financial Services Businesses attributable to Prudential Financial, Inc.                                                     | \$ 589                                                                             | \$ 536  |
| Basic income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock                                  | \$ 1.19                                                                            | \$ 1.16 |
| Diluted income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock                                | \$ 1.17                                                                            | \$ 1.15 |
| Basic net income attributable to Prudential Financial, Inc. per share Common Stock                                                         | \$ 1.22                                                                            | \$ 1.16 |
| Diluted net income attributable to Prudential Financial, Inc. per share Common Stock                                                       | \$ 1.20                                                                            | \$ 1.15 |
| <b>Closed Block Business:</b>                                                                                                              |                                                                                    |         |
| Income from continuing operations before income taxes for Closed Block Business                                                            | \$ 27                                                                              | \$ 259  |
| Income tax expense                                                                                                                         | 8                                                                                  | 98      |
| Income from continuing operations for Closed Block Business                                                                                | 19                                                                                 | 161     |

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|                                                                                                 |         |          |
|-------------------------------------------------------------------------------------------------|---------|----------|
| Income from discontinued operations, net of taxes                                               | 0       | 0        |
| Net income Closed Block Business                                                                | 19      | 161      |
| Less: Income attributable to noncontrolling interests                                           | 0       | 0        |
| Net income of Closed Block Business attributable to Prudential Financial, Inc.                  | \$ 19   | \$ 161   |
| Basic and diluted income from continuing operations attributable to Prudential Financial, Inc.  |         |          |
| per share Class B Stock                                                                         | \$ 5.00 | \$ 75.50 |
| Basic and diluted net income attributable to Prudential Financial, Inc. per share Class B Stock | \$ 5.00 | \$ 75.50 |
| <b>Consolidated:</b>                                                                            |         |          |
| Net income attributable to Prudential Financial, Inc.                                           | \$ 608  | \$ 697   |

**Table of Contents****Results of Operations   Financial Services Businesses**

*2011 to 2010 Three Month Comparison.* Income from continuing operations for the Financial Services Businesses increased \$93 million, from \$507 million in the first quarter of 2010 to \$600 million in the first quarter of 2011. Results in the first quarter of 2011 include a \$153 million pre-tax gain on the sale of a portion of our indirect interest in China Pacific Insurance (Group) Co., Ltd. Absent the effect of this item, income from continuing operations for the Financial Services Businesses for the first quarter of 2011 remained relatively unchanged from the first quarter of 2010. Results in the first quarter of 2011 include a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders' benefits, including changes in reserves, reflecting business growth, as well as the impact of currency fluctuations, in our International Insurance segment. Partially offsetting these items were net pre-tax losses associated with our general account portfolio and hedging programs, as compared to net pre-tax gains in the first quarter of 2010, reflecting the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure and net decreases in the market value of derivatives used to manage investment portfolio duration reflecting changing interest rates. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for the three months ended March 31, 2011 of \$1.17 per share of Common Stock increased from \$1.15 per share of Common Stock for the three months ended March 31, 2010. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by \$9 million for the three months ended March 31, 2011, compared to \$10 million for the three months ended March 31, 2010. As described more fully in Note 8 to the Unaudited Interim Consolidated Financial Statements, the direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. Generally, as statutory cash premiums and policies in force in the Closed Block Business decline, we expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

**Results of Operations   Closed Block Business**

*2011 to 2010 Three Month Comparison.* Income from continuing operations for the Closed Block Business for the three months ended March 31, 2011, was \$19 million, or \$5.00 per share of Class B Stock, compared to \$161 million, or \$75.50 per share of Class B Stock, for the three months ended March 31, 2010. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by \$9 million for the three months ended March 31, 2011, compared to \$10 million for the three months ended March 31, 2010. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

**Table of Contents****Segment Measures**

In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our segments' operating performance using adjusted operating income. Results of the Closed Block Business for all periods are evaluated and presented only in accordance with U.S. GAAP. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of the Financial Services Businesses.

See Note 11 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

**Results of Operations for Financial Services Businesses by Segment****U.S. Retirement Solutions and Investment Management Division*****Individual Annuities******Operating Results***

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

|                                                                                                          | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                          | <b>2011</b>                             | <b>2010</b> |
|                                                                                                          | <b>(in millions)</b>                    |             |
| <b>Operating results:</b>                                                                                |                                         |             |
| Revenues                                                                                                 | \$ 898                                  | \$ 759      |
| Benefits and expenses                                                                                    | 606                                     | 515         |
| Adjusted operating income                                                                                | 292                                     | 244         |
| Realized investment gains (losses), net, and related adjustments(1)                                      | (17)                                    | 138         |
| Related charges(1)(2)                                                                                    | (8)                                     | (133)       |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 267                                  | \$ 249      |

- (1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. Realized investment gains (losses), net, and related adjustments include the net impact of embedded derivatives related to our living benefit features and related hedge positions as described below. The related charges represent payments related to the market value adjustment features of certain of our annuity products. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
- (2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on change in reserves and the amortization of deferred policy acquisition costs, deferred sales inducements and value of business acquired.

**Table of Contents***Adjusted Operating Income*

**2011 to 2010 Three Month Comparison.** Adjusted operating income increased \$48 million, from \$244 million in the first quarter of 2010 to \$292 million in the first quarter of 2011. The increase in adjusted operating income came primarily from higher fee income, net of distribution costs, due to higher average variable annuity account values invested in separate accounts primarily due to positive net flows and net market appreciation over the past twelve months, partially offset by the impact of a \$25 million benefit in the prior year quarter from refinements based on a review and settlement of reinsurance contracts related to acquired business. See **Account Values** below for a further discussion of our account values and sales. Partially offsetting the increase in adjusting operating income were higher general and administrative expenses, net of capitalization, reflecting business development costs. Also partially offsetting the increase in adjusted operating income was a lower benefit related to adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to the increase in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. These adjustments primarily reflect updates to the estimated profitability of the business resulting from current period experience and market performance, and are discussed in more detail below.

As shown in the following table, adjusted operating income for the first quarter of 2011 included \$59 million of benefits from these adjustments, compared to \$74 million of benefits included in the first quarter of 2010.

|                                                                         | Three Months Ended March 31, 2011                  |                                   |              | Three Months Ended March 31, 2010            |                                   |              |
|-------------------------------------------------------------------------|----------------------------------------------------|-----------------------------------|--------------|----------------------------------------------|-----------------------------------|--------------|
|                                                                         | Amortization of<br>DAC<br>and<br>Other<br>Costs(1) | Reserves for<br>GMDB /<br>GMIB(2) | Total        | Amortization of<br>DAC and Other<br>Costs(1) | Reserves for<br>GMDB /<br>GMIB(2) | Total        |
|                                                                         | (in millions)                                      |                                   |              |                                              |                                   |              |
| Quarterly market performance adjustments                                | \$ 18                                              | \$ 32                             | \$ 50        | \$ 14                                        | \$ 29                             | \$ 43        |
| Quarterly adjustment for current period<br>experience and other updates | 1                                                  | 8                                 | 9            | 7                                            | 24                                | 31           |
| <b>Total</b>                                                            | <b>\$ 19</b>                                       | <b>\$ 40</b>                      | <b>\$ 59</b> | <b>\$ 21</b>                                 | <b>\$ 53</b>                      | <b>\$ 74</b> |

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of deferred policy acquisition costs, or DAC, and other costs.

(2) Amounts reflect (charges) or benefits for reserve (increases) or decreases, respectively, related to the guaranteed minimum death and income benefit, or GMDB / GMIB, features of our variable annuity products.

The \$50 million benefit in the first quarter of 2011 relating to the quarterly market performance adjustments shown in the table above is attributable to changes to our estimate of total gross profits to reflect actual fund performance. The actual rate of return on variable annuity account values for the first quarter of 2011 was 3.7% compared to our expected rate of return of 1.7%. Higher than expected returns increased our estimates of total gross profits and decreased our estimate of future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products, by establishing a new, higher starting point for the variable annuity account values used in estimating those items for future periods. The overall increase in our estimate of total gross profits and decrease in our estimate of future expected claims costs results in a lower required rate of amortization and lower required reserve provisions, which are applied to all prior periods. The resulting cumulative adjustment to prior amortization and reserve provisions are recognized in the current period.

The \$43 million benefit in the first quarter of 2010 is attributable to a similar impact on gross profits of market value increases during the period on the underlying assets associated with our variable annuity products. The actual rate of return on variable annuity account values for the first

quarter of 2010 was 3.4% compared to our expected rate of return of 2.0%.

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We derive our near-term future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets are projected to grow at the long-term expected rate of return for the entire period. The near-term future projected return across all contract groups is 6.9% per annum as of March 31, 2011, or approximately 1.7% per quarter. Beginning in the fourth quarter of 2008 and continuing through the first quarter of 2011, the projected near-term future annual rate of return calculated using the reversion to the mean approach for some contract groups was greater than our maximum future rate of return assumption across all asset types for this business. In those cases, we utilize the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. The near-term blended maximum future rate of return, for these impacted contract groups, under the reversion to the mean approach is 9.6% as of March 31, 2011. Included in the blended maximum future rate are assumptions for returns on various asset classes, including a 5.7% annual weighted average rate of return on fixed income investments and a 13% annual maximum rate of return on equity investments. Further or continued market volatility could result in additional market value changes within our separate account assets and corresponding changes to our gross profits, as well as additional adjustments to the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Given that the estimates of future gross profits are based upon our maximum future rate of return assumption for some contract groups, all else being equal, future rates of return higher than the above mentioned future projected four year return of 6.9%, but less than the maximum future rate of return of 9.6%, may still result in increases in the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products.

The \$9 million benefit for the first quarter of 2011 and the \$31 million benefit for the first quarter of 2010 for the quarterly adjustments for current period experience and other updates, shown in the table above, primarily reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period's actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods' amortization, also referred to as an experience true-up adjustment, may be required in the current period. This adjustment to previous periods' amortization is in addition to the direct impact of actual gross profits on current period amortization and the market performance related adjustment to our estimates of gross profits for future periods. The experience true-up adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the first quarter of 2011 primarily reflects a reserve decrease driven by lower than expected actual contract guarantee claim costs. The experience true-up adjustments for deferred policy acquisition and other costs for the first quarter of 2010 reflect a reduction in amortization due to better than expected gross profits primarily from higher than expected fee and spread income. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the first quarter of 2010 primarily reflects a reserve release for a large group of in force contracts where the death benefit guarantee expired in the current quarter.

### *Revenues*

*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, increased \$139 million, from \$759 million in the first quarter of 2010 to \$898 million in the first quarter of 2011. Policy charges and fees and asset management fees and other income increased \$160 million driven by higher average variable annuity account values invested in separate accounts due to positive net flows, net market appreciation, and net transfers of balances from the general account to the separate accounts over the past twelve months. See

Account Values below for a further discussion of our account values and sales. The transfer of balances from the general account relates to both transfers from a customer-elected dollar cost averaging program of approximately \$2.3 billion and approximately \$0.4 billion of net transfers primarily from the automatic rebalancing element, also referred to as an asset transfer feature, in some of our optional living benefit features. The automatic rebalancing element is part of the overall product design, and as a result of market improvements,

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transferred balances out of the fixed-rate account in our general account to the separate accounts from April 1, 2010 through March 31, 2011. Partially offsetting the increase in revenues was a decrease in net investment income of \$23 million, reflecting lower average annuity account values in the general account also resulting from transfers from the fixed-rate account in the general account to the separate accounts as discussed above.

*Benefits and Expenses*

*2011 to 2010 Three Month Comparison.* Benefits and expenses, as shown in the table above under Operating Results, increased \$91 million, from \$515 million in the first quarter of 2010 to \$606 million in the first quarter of 2011. Absent the net \$15 million increase related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, benefits and expenses increased \$76 million. Excluding these adjustments, general and administrative expenses, net of capitalization, increased \$55 million primarily driven by higher distribution and asset management costs, reflecting higher average variable annuity account values invested in separate accounts and higher variable annuity sales. Excluding the adjustments noted above, the amortization of deferred policy acquisition costs increased \$23 million reflecting the impact of higher gross profits used as a basis for amortization driven by higher fee income. Interest expense also increased \$12 million driven by higher intercompany borrowings to fund operating costs and new business sales. Partially offsetting these increases in benefits and expenses was a decrease in interest credited to policyholders' account balances of \$22 million driven by lower interest credited primarily due to lower average annuity account values in the fixed-rate account of the general account partially offset by higher amortization of deferred sales inducements reflecting the impact of higher gross profits.

*Account Values*

The following table sets forth changes in account values for the individual annuity business, for the periods indicated. For our individual annuity business, assets are reported at account value, and net sales (redemptions) are gross sales minus redemptions or surrenders and withdrawals, as applicable. Gross sales do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

|                                                                 | Three Months Ended<br>March 31, |           |
|-----------------------------------------------------------------|---------------------------------|-----------|
|                                                                 | 2011                            | 2010      |
|                                                                 | (in millions)                   |           |
| <b>Variable Annuities(1):</b>                                   |                                 |           |
| Beginning total account value                                   | \$ 102,348                      | \$ 80,519 |
| Sales                                                           | 6,815                           | 4,867     |
| Surrenders and withdrawals                                      | (1,967)                         | (1,670)   |
| Net sales                                                       | 4,848                           | 3,197     |
| Benefit payments                                                | (254)                           | (266)     |
| Net flows                                                       | 4,594                           | 2,931     |
| Change in market value, interest credited and other activity(2) | 3,552                           | 2,288     |
| Policy charges                                                  | (525)                           | (359)     |
| Ending total account value(3)                                   | \$ 109,969                      | \$ 85,379 |
| <b>Fixed Annuities:</b>                                         |                                 |           |
| Beginning total account value                                   | \$ 3,837                        | \$ 3,452  |

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|                                         |          |          |
|-----------------------------------------|----------|----------|
| Sales                                   | 18       | 30       |
| Surrenders and withdrawals              | (48)     | (48)     |
| Net redemptions                         | (30)     | (18)     |
| Benefit payments                        | (67)     | (57)     |
| Net flows                               | (97)     | (75)     |
| Interest credited and other activity(2) | 102      | 363      |
| Policy charges                          | (1)      | (1)      |
| Ending total account value              | \$ 3,841 | \$ 3,739 |

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- (1) Variable annuities include only those sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment.
- (2) Includes a cumulative reclassification of \$267 million in the first quarter of 2010 from variable annuity to fixed annuity account values to conform presentation of certain contracts in annuitization status to current reporting practices.
- (3) As of March 31, 2011, variable annuity account values are invested in equity funds (\$62 billion or 56%), bond funds (\$31 billion or 28%), market value adjusted or fixed rate accounts (\$9 billion or 8%), and other (\$8 billion or 8%).

*2011 to 2010 Three Month Comparison.* Total account values for fixed and variable annuities amounted to \$113.8 billion as of March 31, 2011, representing an increase of \$7.6 billion from December 31, 2010 and an increase of \$24.7 billion from March 31, 2010. The increase in total account values was driven by positive variable annuity net flows and increases in the market value of customers' variable annuities due to favorable equity markets. Individual variable annuity gross sales momentum continued in the first quarter of 2011 as sales increased by \$1.9 billion, from \$4.9 billion in the first quarter of 2010 to \$6.8 billion in the first quarter of 2011. The increase reflects our product strength, customer value proposition, and our position as the primary provider of living benefit guarantees based on highest daily customer account value, as well as the further expansion of our distribution networks. We also experienced increased sales in the first quarter of 2011 related to an optional living benefit feature that we previously announced would be discontinued. Although we have implemented product modifications, we believe that our current product offerings remained competitively positioned and expect our living benefit features will provide us an attractive risk and profitability profile, as all of our currently-offered optional living benefit features include the automatic rebalancing element described below. Individual variable annuity surrenders and withdrawals increased by \$0.3 billion, from \$1.7 billion in the first quarter of 2010 to \$2.0 billion in the first quarter of 2011, reflecting the overall impact of higher account values in the current period due to market appreciation over the past twelve months.

*Variable Annuity Net Amount at Risk*

As a result of changes in the global financial markets in recent years, we have seen significant volatility in the net amounts at risk embedded in our variable annuity products with riders that include optional living and guaranteed minimum death benefit features. The net amount at risk is generally defined as the present value of the guaranteed minimum benefit amount in excess of the contractholder's current account balance. As part of our risk management strategy, we hedge or limit our exposure to certain of the risks associated with our variable annuity products, primarily through a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments. Our hedging program is discussed below in *Net impact of embedded derivatives related to our living benefit features and related hedge positions*. The rate of return we realize from our variable annuity contracts can vary by contract based on our risk management strategy, including the impact of any capital market movements that we may hedge, the impact on that portion of our variable annuity contracts that benefit from the automatic rebalancing element, and the impact of risks that are not able to be hedged.

The automatic rebalancing element, included in the design of certain optional living benefits, transfers assets between the variable investments selected by the annuity contractholder and, depending on the benefit feature, the fixed-rate account in the general account or a bond portfolio within the separate account. The transfers are based on the static mathematical formula used with the particular benefit which considers a number of factors, including the impact of investment performance on the contractholder's total account value. In general, negative investment performance may result in transfers to either the fixed-rate account in the general account or a bond portfolio within the separate account, and positive investment performance may result in transfers back to contractholder-selected investments. Overall, the automatic rebalancing element is designed to help mitigate our exposure to equity market risk and market volatility. Beginning in 2009, our offerings of optional living benefit features associated with currently-sold variable annuity products all include an automatic rebalancing element, and in 2009 we discontinued any new sales of optional living benefit features without an automatic rebalancing element.

Variable annuity account values with living benefit features were \$82.6 billion, \$75.1 billion and \$57.5 billion as of March 31, 2011, December 31, 2010 and March 31, 2010, respectively. The following table sets



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forth the account values of our variable annuities with living benefit features and the net amounts at risk of the living benefit features split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

|                                                                    | March 31, 2011 |                    | December 31, 2010 |                    | March 31, 2010 |                    |
|--------------------------------------------------------------------|----------------|--------------------|-------------------|--------------------|----------------|--------------------|
|                                                                    | Account Value  | Net Amount at Risk | Account Value     | Net Amount at Risk | Account Value  | Net Amount at Risk |
|                                                                    | (in millions)  |                    |                   |                    |                |                    |
| Automatic rebalancing element(1)                                   | \$ 64,786      | \$ 1,227           | \$ 57,336         | \$ 1,217           | \$ 39,786      | \$ 1,104           |
| No automatic rebalancing element                                   | 17,782         | 1,574              | 17,735            | 1,825              | 17,726         | 2,479              |
| Total variable annuity account values with living benefit features | \$ 82,568      | \$ 2,801           | \$ 75,071         | \$ 3,042           | \$ 57,512      | \$ 3,583           |

(1) As of March 31, 2011, December 31, 2010 and March 31, 2010, account values that have rebalanced to the general account or a separate account bond portfolio due to the automatic rebalancing element represent 10% or \$6.3 billion of the \$64.8 billion total account value, 12% or \$6.7 billion of the \$57.3 billion total account value, and 19% or \$7.7 billion of the \$39.8 billion total account value, respectively.

The increase in account values that included an automatic rebalancing element as of March 31, 2011 compared to prior periods reflects sales of our latest product offerings which include this feature, as well as the impact on account values of overall favorable equity markets since the prior periods. As of March 31, 2011, approximately 78% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 76% and 69% as of December 31, 2010 and March 31, 2010, respectively.

Favorable market conditions also drove the decline in total net amount at risk compared to prior periods. As of March 31, 2011, approximately 44% of the net amount at risk associated with variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 40% and 31% as of December 31, 2010 and March 31, 2010, respectively, reflecting an increase primarily driven by new business sales.

Our guaranteed minimum death benefits guarantee either a minimum return on the contract value or an enhanced value, if applicable, to be used solely for purposes of determining benefits payable in the event of death. All of the \$82.6 billion, \$75.1 billion and \$57.5 billion of variable annuity account values with living benefit features as of March 31, 2011, December 31, 2010 and March 31, 2010, respectively, also contain guaranteed minimum death benefits. An additional \$24.0 billion, \$23.9 billion and \$24.5 billion of variable annuity account values, respectively, contain guaranteed minimum death benefits, but no living benefit features. Certain account values with guaranteed minimum death benefits are affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element. The following table sets forth the account values of our variable annuities with guaranteed minimum death benefits and the net amount at risk of the guaranteed minimum death benefits split between those that are affected by an automatic rebalancing element and those that are not, as of the dates indicated.

|                                                                   | March 31, 2011 |                    | December 31, 2010 |                    | March 31, 2010 |                    |
|-------------------------------------------------------------------|----------------|--------------------|-------------------|--------------------|----------------|--------------------|
|                                                                   | Account Value  | Net Amount at Risk | Account Value     | Net Amount at Risk | Account Value  | Net Amount at Risk |
|                                                                   | (in millions)  |                    |                   |                    |                |                    |
| Automatic rebalancing element                                     | \$ 64,786      | \$ 557             | \$ 57,336         | \$ 592             | \$ 39,786      | \$ 719             |
| No automatic rebalancing element                                  | 41,835         | 4,243              | 41,693            | 4,867              | 42,201         | 6,786              |
| Total variable annuity account values with death benefit features | \$ 106,621     | \$ 4,800           | \$ 99,029         | \$ 5,459           | \$ 81,987      | \$ 7,505           |

As of March 31, 2011, approximately 61% of variable annuity account values with guaranteed minimum death benefits were affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element as part of the living benefit feature design.

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compared to 58% and 49% as of December 31, 2010 and March 31, 2010, respectively. As of March 31, 2011, approximately 12% of the net amount at risk associated with variable annuity account values with guaranteed minimum death benefits was affected by an automatic rebalancing element in the product design, compared to 11% and 10% as of December 31, 2010 and March 31, 2010, respectively.

*Net impact of embedded derivatives related to our living benefit features and related hedge positions*

As mentioned above, in addition to our automatic rebalancing element, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefit hedging program, we purchase equity options and futures as well as interest rate derivatives to hedge certain living benefit features accounted for as embedded derivatives against changes in equity markets, interest rates, and market volatility. Prior to the third quarter of 2010, our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives. In the third quarter of 2010, we revised our hedging strategy as, in a low interest rate environment, we do not believe the GAAP value of the embedded derivative liability to be an appropriate measure for determining the hedge target. Our new hedge target is grounded in a GAAP/capital markets valuation framework but incorporates modifications to the risk-free return assumption to account for the fact that the underlying customer separate account funds which support these living benefits are invested in assets that contain risk. The modifications include the removal of a volatility risk margin embedded in the valuation technique used to fair value the embedded derivative liability under GAAP, and the inclusion of a credit spread over the risk-free rate used to estimate future growth of bond investments in the customer separate account funds. This new strategy will result in differences each period between the change in the value of the embedded derivative liability as defined by GAAP and the change in the value of the hedge positions, potentially increasing volatility in GAAP earnings. In addition, consistent with sound risk management practices, we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our hedge target definition is reported through Corporate and Other operations.

The net impact of both the change in fair value of the embedded derivative liabilities associated with our living benefit features and the change in fair value of the related derivative hedge positions are included in Realized investment gains (losses), net, and related adjustments and the related impact to the amortization of deferred policy acquisition and other costs is included in Related charges. The following table shows the net impact of changes in the embedded derivative liabilities, as defined by GAAP, and hedge positions, as well as the related amortization of deferred policy acquisition and other costs, for the three months ended March 31, 2011 and 2010 for the Individual Annuities segment.

|                                                                                                                                                 | <b>Three Months Ended<br/>March 31,</b> |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                                                                 | <b>2011</b>                             | <b>2010</b> |
|                                                                                                                                                 | <b>(in millions)</b>                    |             |
| Change in the fair value of the embedded derivatives(1)                                                                                         | \$ 721                                  | \$ 230      |
| Change in fair value of hedge positions                                                                                                         | (567)                                   | (114)       |
| Less: Gain/(loss) reported in Corporate and Other operations(2)                                                                                 | 55                                      | 0           |
| Subtotal                                                                                                                                        | 99                                      | 116         |
| (Increase)/decrease in the embedded derivative liabilities resulting from the impact of the market-perceived risk of our own non-performance(3) | (125)                                   | 52          |
| Net (charge)/benefit from the mark-to-market of embedded derivatives and related hedge positions(4)                                             | \$ (26)                                 | \$ 168      |
| Related benefit/(charge) to amortization of DAC and other costs(5)                                                                              | \$ 20                                   | \$ (98)     |
|                                                                                                                                                 | \$ (6)                                  | \$ 70       |

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Net (charge)/benefit from the mark-to-market of embedded derivatives and related hedge positions, after the impact of DAC and other costs

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- (1) Represents the change in the fair value of the embedded derivatives as defined by GAAP, excluding the change in the fair value of the embedded derivative liabilities resulting from the impact of the market-perceived risk of our own non-performance. Positive amount represents income; negative amount represents a loss.
- (2) Represents the impact from temporarily hedging to an amount that differs from our hedge target definition.
- (3) As of March 31, 2011, the fair value of the embedded derivatives in a liability position were \$1,217 million, before the impact of the adjustment for the market's perception of our own risk of non-performance. Our adjustment for the market's perception of our own risk of non-performance resulted in a \$598 million decrease to these embedded derivative liabilities as of March 31, 2011.
- (4) Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions are excluded from adjusted operating income and included in operating results in Realized investment gains (losses), net, and related adjustments.
- (5) Related benefit/(charge) to amortization of DAC and other costs is excluded from adjusted operating income and included in operating results in Related charges.

In the first quarter of 2011, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for the Individual Annuities segment was a charge of \$26 million partially offset by a \$20 million decrease in the amortization of deferred policy acquisition and other costs resulting from the corresponding impact to current period gross profits. Excluding the impact of the market-perceived risk of our own non-performance in the valuation of the embedded derivatives, which is discussed below, and excluding the related amortization of deferred policy acquisition and other costs, the hedging activities resulted in a \$99 million net benefit in the first quarter of 2011 for the Individual Annuities segment. The \$99 million net benefit in the first quarter of 2011 is comprised of a \$165 million benefit attributable to the additional risk margins that are included in the valuation of the embedded derivative as defined by GAAP which we choose not to hedge, partially offset by a \$66 million charge driven by basis risk. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, as defined by GAAP, see Note 13 to the Unaudited Interim Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

In the first quarter of 2010, the net impact from the mark-to-market of our embedded derivatives and related hedge positions was a benefit of \$168 million partially offset by a \$98 million increase in the amortization of deferred policy acquisition and other costs resulting from the corresponding impact to current period gross profits. Excluding the market-perceived risk of our own non-performance in the valuation of the embedded derivatives, which is discussed below and excluding the related amortization of deferred policy acquisition and other costs, the hedging activities resulted in a \$116 million benefit in the first quarter of 2010 primarily driven by differences in the actual performance of the underlying separate account funds relative to the performance of the market indices we utilize as a basis for developing our hedging strategy.

As shown in the table above, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for the first quarters of both 2011 and 2010 also include an adjustment to the embedded derivative liabilities to reflect the market's perception of our own risk of non-performance. To reflect the market's perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuation of the embedded derivative liabilities. Beginning with the first quarter of 2010, this additional spread is applied at an individual contract level and only to those embedded derivatives in a liability position and not to those in a contra-liability position. For additional information regarding the methodology for calculating the impact of the market-perceived risk of our non-performance, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features. As shown in the table above, the first quarter of 2011 includes a \$125 million charge related to this adjustment primarily resulting from a decrease in the fair value of embedded derivatives in a liability position reflecting a decrease in the present value of future expected benefit payments and an increase in future expected fee income driven by favorable market conditions. The first quarter of 2010 included a \$52 million benefit related to this update to reflect the market's perception of our own risk of non-performance primarily driven by the policy refinement implemented in the first quarter of 2010 to apply the non-performance risk adjustment at an individual contract level rather than contract group level.

**Table of Contents***Capital hedge program*

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges, which primarily consisted of equity-based total return swaps, were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of businesses, the results of that program are reported within Corporate and Other operations. Consequently, see *Corporate and Other* for a discussion of the results of the current program. See *Liquidity and Capital Resources* *Liquidity and Capital Resources of Subsidiaries* *Domestic Insurance Subsidiaries* for a further discussion of the capital hedge program. The results of the Individual Annuities segment for the first quarter of 2010 included \$54 million of mark-to-market losses on these capital hedges driven by favorable market conditions during the quarter which resulted in an increase in our capital position. The results of these hedges are included in *Realized investment gains (losses), net and related adjustments* and have been excluded from adjusted operating income. We continue to assess the composition of the hedging program on an ongoing basis.

**Retirement***Operating Results*

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

|                                                                                                          | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                          | <b>2011</b>                             | <b>2010</b> |
|                                                                                                          | <b>(in millions)</b>                    |             |
| <b>Operating results:</b>                                                                                |                                         |             |
| Revenues                                                                                                 | \$ 1,206                                | \$ 1,129    |
| Benefits and expenses                                                                                    | 1,034                                   | 960         |
| Adjusted operating income                                                                                | 172                                     | 169         |
| Realized investment gains (losses), net, and related adjustments(1)                                      | (75)                                    | 153         |
| Related charges(2)                                                                                       | (5)                                     | (4)         |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)             | (4)                                     | 196         |
| Change in experience-rated contract holder liabilities due to asset value changes(4)                     | 21                                      | (264)       |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 109                                  | \$ 250      |

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See *Realized Investment Gains and Losses and General Account Investments* *Realized Investment Gains and Losses*.

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

(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See *Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contract holder Liabilities Due to Asset Value Changes*.

(4)

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Benefits and expenses exclude changes in contract holder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contract holder Liabilities Due to Asset Value Changes.

**Table of Contents***Adjusted Operating Income*

*2011 to 2010 Three Month Comparison.* Adjusted operating income increased \$3 million, from \$169 million in the first quarter of 2010 to \$172 million in the first quarter of 2011, primarily reflecting higher fee income partially offset by an increase in general and administrative expenses, net of capitalization, driven by higher costs related to legal matters and strategic initiatives. Higher fee income was driven by an increase in average full service fee-based retirement account values primarily from market appreciation, and higher fee-based investment-only stable value account values in our institutional investment products business resulting from net additions.

Net investment spread results were relatively flat compared to the first quarter of 2010 primarily reflecting the impact of lower crediting rates on general account liabilities in our full service business and higher balances offset by lower fixed income reinvestment rates and decreased net settlements on interest rate swaps. Lower crediting rates on general account liabilities in our full service business resulted from rate resets in the first quarter of 2011. Our ability to maintain current net spreads in our full service business in future periods is impacted by the levels of interest rates, the pace and extent of changes in interest rates, competitor pricing, and the minimum guaranteed crediting rates on our general account stable value products. Net investment spread results from the impact of net additions in our structured settlement product and increases in balances in our full service general account stable value products were partially offset by lower invested assets from guaranteed investment product scheduled withdrawals in our institutional investment products business. If we are unable to replace scheduled withdrawals of guaranteed investment products, including GICs, funding agreements, retail notes, and institutional notes, with new additions, net investment spread results in future periods may be negatively impacted. For further discussion of our sales, see Sales Results and Account Values. The decreased net settlements on floating rate to fixed rate interest rate swaps used to manage the duration of the investment portfolio resulted primarily from lower notional amounts of these swaps. The notional amounts of these swaps have decreased as we continue to manage the duration gap between our assets and liabilities. Future net investment spread results could be impacted if interest rates or the notional amounts of these swaps change.

*Revenues*

*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, increased \$77 million, from \$1,129 million in the first quarter of 2010 to \$1,206 million in the first quarter of 2011. Premiums increased \$63 million, driven by higher single premium annuity sales which resulted in a corresponding increase in policyholders' benefits, including the change in policy reserves, as discussed below. Net investment income increased \$8 million primarily reflecting a larger base of invested assets from net additions in our structured settlement product and increases in balances in our full service general account stable value products, partially offset by the impact of scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business and lower portfolio yields. Policy charges and fee income and asset management fees and other income increased \$6 million, primarily driven by an increase in asset-based fees due to an increase in average full service fee-based retirement account values and an increase in fee-based investment-only stable value account values in our institutional investment products business, partially offset by decreased income from net settlements on interest rate swaps, as discussed above.

*Benefits and Expenses*

*2011 to 2010 Three Month Comparison.* Benefits and expenses, as shown in the table above under Operating Results, increased \$74 million, from \$960 million in the first quarter of 2010 to \$1,034 million in the first quarter of 2011. Policyholders' benefits, including the change in policy reserves, increased \$70 million, primarily reflecting an increase in change in policy reserves associated with the increase in premiums as discussed above. Also, general and administrative expenses, net of capitalization, increased \$17 million primarily driven by higher costs related to legal matters and strategic initiatives. The amortization of deferred policy acquisition costs increased \$24 million primarily driven by a refinement to the methodology applied in calculating the amortization of deferred policy acquisition costs for certain structured settlement

contracts with an equally offsetting impact to interest credited to policyholders' account balances. Interest credited to

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policyholders' account balances decreased \$37 million primarily reflecting the refinement to the methodology for calculating reserves for certain structured settlement contracts, as mentioned above, as well as lower crediting rates on full service stable value account values due to rate resets, and the impact of scheduled withdrawals on account values of our general account guaranteed investment products in our institutional investment products business. These decreases to interest credited to policyholders' account balances were partially offset by the impact of higher account values from our full service general account stable value products and our structured settlement product.

*Sales Results and Account Values*

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

|                                                               | Three Months Ended<br>March 31,<br>2011                      2010<br>(in millions) |            |
|---------------------------------------------------------------|------------------------------------------------------------------------------------|------------|
| <b>Full Service(1):</b>                                       |                                                                                    |            |
| Beginning total account value                                 | \$ 141,313                                                                         | \$ 126,345 |
| Deposits and sales                                            | 4,848                                                                              | 5,605      |
| Withdrawals and benefits                                      | (4,927)                                                                            | (4,500)    |
| Change in market value, interest credited and interest income | 4,743                                                                              | 3,697      |
| Ending total account value                                    | \$ 145,977                                                                         | \$ 131,147 |
| Net additions (withdrawals)                                   | \$ (79)                                                                            | \$ 1,105   |
| <b>Institutional Investment Products(2):</b>                  |                                                                                    |            |
| Beginning total account value                                 | \$ 64,183                                                                          | \$ 51,908  |
| Additions                                                     | 5,785                                                                              | 1,876      |
| Withdrawals and benefits(3)                                   | (1,128)                                                                            | (2,139)    |
| Change in market value, interest credited and interest income | 482                                                                                | 799        |
| Other(4)                                                      | (430)                                                                              | 324        |
| Ending total account value                                    | \$ 68,892                                                                          | \$ 52,768  |
| Net additions (withdrawals)                                   | \$ 4,657                                                                           | \$ (263)   |

- (1) Ending total account value for the full service business includes assets of Prudential's retirement plan of \$6.0 billion and \$5.6 billion as of March 31, 2011 and 2010, respectively.
- (2) Ending total account value for the institutional investment products business includes assets of Prudential's retirement plan of \$5.2 billion as of both March 31, 2011 and 2010, respectively. Ending total account value for the institutional investment products business also includes \$1.5 billion as of both March 31, 2011 and 2010 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and \$0.8 billion and \$1.6 billion as of March 31, 2011 and 2010, respectively, related to affiliated funding agreements issued using the proceeds from the sale of Prudential Financial retail medium-term notes. For additional information regarding the FHLBNY and the retail medium-term notes program see, Liquidity and Capital Resources.
- (3) Withdrawals and benefits include \$(34) million for March 31, 2011 and \$(411) million for March 31, 2010 representing transfers of client balances from accounts we manage to externally-managed accounts. This withdrawal is offset within Other, as there is no net impact on ending account values for this transfer.
- (4) Other includes transfers from (to) the Asset Management segment of \$(402) million for March 31, 2011 and \$(43) million for March 31, 2010. Other also includes \$34 million in March 31, 2011 and \$411 million in March 31, 2010 representing transfers of client balances from accounts we manage to

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externally-managed accounts. These transfers are offset within Withdrawals and benefits, as there is no net impact on ending account values for this transfer. Remaining amounts for all periods presented primarily represent changes in asset balances for externally-managed accounts.

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*2011 to 2010 Three Month Comparison.* Account values in our full service business amounted to \$146.0 billion as of March 31, 2011, an increase of \$4.7 billion from December 31, 2010 and an increase of \$14.8 billion from March 31, 2010 primarily driven by an increase in the market value of customer funds due to equity market appreciation. Net additions (withdrawals) decreased \$1.2 billion, from net additions of \$1.1 billion in the first quarter of 2010 to net withdrawals of \$0.1 billion in the first quarter of 2011, primarily reflecting lower new plan sales as the first quarter of 2010 included more large plan sales and reflecting higher participant withdrawals in the first quarter of 2011. New plan sales in the first quarter of 2011 included two client sales over \$100 million totaling \$355 million compared to five client sales over \$100 million in the first quarter of 2010, which totaled \$782 million.

Account values in our institutional investment products business amounted to \$68.9 billion as of March 31, 2011, representing an increase of \$4.7 billion from December 31, 2010 driven by additions of fee-based investment-only stable value products. Account values in our institutional investment products business increased \$16.1 billion from March 31, 2010. This increase was driven by additions of fee-based investment-only stable value products and, to a lesser extent, increases in the market value of customer funds primarily from interest credited on the general account liabilities and declines in fixed income yields over the past twelve months. These increases were partially offset by declines in general account guaranteed investment product account values due to scheduled withdrawals. Net additions (withdrawals) increased \$4.9 billion, from net withdrawals of \$0.3 billion in the first quarter of 2010 to net additions of \$4.6 billion in the first quarter of 2011 primarily reflecting higher sales of fee-based investment-only stable value products and lower general account guaranteed investment product scheduled withdrawals. In addition, sales of guaranteed investment products in the institutional and retail markets continue to be negatively impacted by capital market conditions.

**Asset Management****Operating Results**

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

|                                                                                                          | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                          | <b>2011</b>                             | <b>2010</b> |
|                                                                                                          | <b>(in millions)</b>                    |             |
| <b>Operating results:</b>                                                                                |                                         |             |
| Revenues                                                                                                 | \$ 548                                  | \$ 379      |
| Expenses                                                                                                 | 394                                     | 296         |
| Adjusted operating income                                                                                | 154                                     | 83          |
| Realized investment gains (losses), net, and related adjustments(1)                                      | (20)                                    | 3           |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)  | 27                                      | (19)        |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 161                                  | \$ 67       |

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

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

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separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relate to the equity interests of minority investors.

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*Adjusted Operating Income*

*2011 to 2010 Three Month Comparison.* Adjusted operating income increased \$71 million, from \$83 million in the first quarter of 2010 to \$154 million in the first quarter of 2011 reflecting more favorable results from commercial mortgage activities, increased asset management fees and more favorable results from proprietary investing activities.

Asset management fees increased \$52 million, before associated expenses, primarily from retail and institutional customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Results from the segment's commercial mortgage activities increased primarily driven by \$27 million in lower credit and valuation-related charges on interim loans. Results in the first quarter of 2011 include \$5 million of net credit and valuation-related charges compared to \$32 million in the first quarter of 2010. Also, the first quarter of 2011 includes \$14 million in gains on sales of foreclosed commercial real estate assets in the interim loan portfolio compared to \$3 million in the first quarter of 2010. As of March 31, 2011, the principal balance of interim loans outstanding totaled \$1.2 billion, which excludes both \$25 million of commitments for future fundings that would need to be disbursed if the borrowers meet the conditions for these fundings, as well as \$38 million of commercial real estate held for sale related to foreclosed interim loans. As of March 31, 2011, these interim loans outstanding had a weighted average loan-to-value ratio of 111%, indicating that, in aggregate, the loan amount is greater than the collateral value. As of March 31, 2011, for those loans where the loan amount is greater than the collateral value, the excess of the loan amount over the collateral value is \$160 million. The interim loan portfolio had a weighted average debt service coverage ratio of 1.33 times. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. These loans also had an allowance for losses or credit related market value losses totaling \$159 million as of March 31, 2011.

Results of the segment's proprietary investing activities, net of direct expenses, increased \$15 million, from \$5 million in the first quarter of 2010 to \$20 million in the first quarter of 2011, primarily reflecting the impact of appreciation in real estate values on co-investments and the gain on the sale of our equity position in a collateralized debt obligation in the first quarter of 2011.

The increases above were partially offset by increased expenses, largely related to compensation.

**Table of Contents***Revenues*

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

|                                                                                      | Three Months Ended<br>March 31,<br>20112010(4)<br>(in millions) |        |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------------|--------|
| Revenues by type:                                                                    |                                                                 |        |
| Asset management fees by source:                                                     |                                                                 |        |
| Institutional customers                                                              | \$ 174                                                          | \$ 152 |
| Retail customers(1)                                                                  | 104                                                             | 81     |
| General account                                                                      | 78                                                              | 71     |
| Total asset management fees                                                          | 356                                                             | 304    |
| Incentive fees                                                                       | (7)                                                             | 12     |
| Transaction fees                                                                     | 11                                                              | 6      |
| Proprietary investing                                                                | 24                                                              | 10     |
| Commercial mortgage(2)                                                               | 29                                                              | (17)   |
| Total incentive, transaction, proprietary investing and commercial mortgage revenues | 57                                                              | 11     |
| Service, distribution and other revenues(3)                                          | 135                                                             | 64     |
| Total revenues                                                                       | \$ 548                                                          | \$ 379 |

(1) Consists of fees from: (a) individual mutual funds and both variable annuities and variable life insurance asset management revenues from our separate accounts; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of both variable annuities and variable life insurance are included in the general account.

(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.

(3) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was \$17 million and \$16 million for the three months ended March 31, 2011 and 2010, respectively.

(4) Reflects reclassifications to conform to current year presentation.

|                                                        | 2011     | March 31,<br>2010<br>(in billions) |
|--------------------------------------------------------|----------|------------------------------------|
| <b>Assets Under Management (at fair market value):</b> |          |                                    |
| Institutional customers(1)                             | \$ 246.2 | \$ 193.3                           |
| Retail customers(2)                                    | 108.8    | 89.0                               |
| General account                                        | 213.8    | 189.8                              |
| Total                                                  | \$ 568.8 | \$ 472.1                           |

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- (1) Consists of third party institutional assets and group insurance contracts.
- (2) Consists of: (a) individual mutual funds and both variable annuities and variable life insurance assets in our separate accounts; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third-party sub-advisory relationships. Fixed annuities and the fixed-rate accounts of both variable annuities and variable life insurance are included in the general account.

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

|                                                                     | <b>March 31,</b>     |               |
|---------------------------------------------------------------------|----------------------|---------------|
|                                                                     | <b>2011</b>          | <b>2010</b>   |
|                                                                     | <b>(in millions)</b> |               |
| <b>Co-Investments:</b>                                              |                      |               |
| Real Estate                                                         | \$ 388               | \$ 360        |
| Fixed Income                                                        | 30                   | 21            |
| <b>Seed Investments:</b>                                            |                      |               |
| Real Estate                                                         | 258                  | 206           |
| Public Equity                                                       | 101                  | 57            |
| Fixed Income                                                        | 178                  | 30            |
| <b>Loans Secured by Investor Equity Commitments or Fund Assets:</b> |                      |               |
| Real Estate secured by Investor Equity                              | 11                   | 17            |
| Private Equity secured by Investor Equity                           | 5                    | 0             |
| Real Estate secured by Fund Assets                                  | 231                  | 260           |
| <b>Total</b>                                                        | <b>\$ 1,202</b>      | <b>\$ 951</b> |

*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, increased \$169 million, from \$379 million in the first quarter of 2010 to \$548 million in the first quarter of 2011. Service, distribution and other revenues increased \$71 million, which includes higher revenues from certain consolidated real estate funds, which were fully offset by higher expenses related to noncontrolling interest in these funds. Service, distribution and other revenues also includes higher mutual fund service fees, a portion of which are offset with a corresponding increase in expense. Asset management fees increased \$52 million primarily from the management of institutional and retail customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Commercial mortgage revenues increased \$46 million primarily reflecting lower net credit and valuation-related charges and higher gains on sales of foreclosed real estate assets in the interim loan portfolio, as discussed above. Proprietary investing revenues increased \$14 million reflecting improved results in real estate and fixed income investments, as discussed above. Partially offsetting these increases was a decrease in incentive fees of \$19 million primarily as a result of declines in the net asset value of institutional real estate funds driven by the impact of currency fluctuations during the first quarter of 2011. A portion of these incentive-based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of March 31, 2011, \$144 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment. Future incentive, transaction, proprietary investing and commercial mortgage revenues will be impacted by the level and diversification of our proprietary investments, the commercial real estate market, and other domestic and international market conditions.

*Expenses*

*2011 to 2010 Three Month Comparison.* Expenses, as shown in the table above under Operating Results, increased \$98 million, from \$296 million in the first quarter of 2010 to \$394 million in the first quarter of 2011, primarily driven by increased compensation costs, in line with increased revenues, as discussed above. In addition, expenses related to revenues associated with certain consolidated real estate funds and mutual fund services increased, as discussed above.

**Table of Contents****U.S. Individual Life and Group Insurance Division***Individual Life**Operating Results*

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

|                                                                                                          | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                          | <b>2011</b>                             | <b>2010</b> |
|                                                                                                          | <b>(in millions)</b>                    |             |
| <b>Operating results:</b>                                                                                |                                         |             |
| Revenues                                                                                                 | \$ 725                                  | \$ 687      |
| Benefits and expenses                                                                                    | 629                                     | 596         |
| Adjusted operating income                                                                                | 96                                      | 91          |
| Realized investment gains (losses), net, and related adjustments(1)                                      | 26                                      | (21)        |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 122                                  | \$ 70       |

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

*Adjusted Operating Income*

*2011 to 2010 Three Month Comparison.* Adjusted operating income increased \$5 million, from \$91 million in the first quarter of 2010 to \$96 million in the first quarter of 2011, including \$7 million from mortality experience, net of reinsurance, which was less unfavorable relative to expected levels, compared to the first quarter of 2010. The increase in adjusted operating income also reflects higher net investment spread income driven by higher asset balances supporting growth in our universal life products. In addition, an increase in sales of annuity products through our agency distribution force contributed to the increase in adjusted operating income. We distribute products offered by the Annuities segment, as well as other segments, and are paid a market rate by these businesses to distribute their products. These payments may be more or less than the associated distribution costs, and any profit or loss is included in the results of the Individual Life segment. These increases to adjusted operating income were partially offset by a decline in earnings from variable products, primarily due to the runoff of variable policies in force.

*Revenues*

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*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, increased \$38 million, from \$687 million in the first quarter of 2010 to \$725 million in the first quarter of 2011. Net investment income increased \$23 million reflecting higher asset balances supporting growth in our universal life and term products including higher universal life account balances from increased policyholder deposits and higher asset balances from increased financing of regulatory capital requirements associated with statutory reserves from certain term and universal life insurance policies. Lower invested asset yields from declines in portfolio reinvestment rates were a partial offset to the increase in net investment income. Policy charges and fees and asset management fees and other income increased \$19 million driven by an increase in amortization of unearned revenue reserves reflecting the impact of less unfavorable mortality experience, as well as the impact of higher actual gross profits on current period amortization. These increases in revenue were partially offset by lower premiums reflecting the impact of lower term life product sales.

### *Benefits and Expenses*

*2011 to 2010 Three Month Comparison.* Benefits and expenses, as shown in the table above under Operating Results, increased \$33 million, from \$596 million in the first quarter of 2010 to \$629 million in

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the first quarter of 2011. Amortization of deferred policy acquisition costs increased \$31 million reflecting the impact of less unfavorable mortality experience, as well as the impact of higher actual gross profits on current period amortization. Interest expense increased \$10 million reflecting interest on increased borrowings related to the financing of regulatory capital requirements associated with statutory reserves for certain term and universal life insurance policies. Partially offsetting these items was a decrease of \$10 million in policyholders' benefits, including interest credited to policyholders, reflecting a lower change in reserves, including the impact of lower term life premiums resulting from a decrease in sales, and reductions in crediting rates on approximately \$3 billion of policyholder account balances. These decreases were partially offset by an increase in interest credited to policyholders from higher universal life account balances from increased policyholder deposits.

*Sales Results*

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

|                                                                     | Three Months Ended<br>March 31, |       |
|---------------------------------------------------------------------|---------------------------------|-------|
|                                                                     | 2011                            | 2010  |
|                                                                     | (in millions)                   |       |
| <b>Annualized New Business Premiums(1):</b>                         |                                 |       |
| Variable Life                                                       | \$ 7                            | \$ 5  |
| Universal Life                                                      | 23                              | 20    |
| Term Life                                                           | 35                              | 43    |
| Total                                                               | \$ 65                           | \$ 68 |
| <b>Annualized New Business Premiums by Distribution Channel(1):</b> |                                 |       |
| Prudential Agents                                                   | \$ 20                           | \$ 20 |
| Third party                                                         | 45                              | 48    |
| Total                                                               | \$ 65                           | \$ 68 |

(1) Annualized scheduled premiums plus 10% of excess (unscheduled) and single premiums from new sales. Excludes corporate-owned life insurance.

*2011 to 2010 Three Month Comparison.* Sales of new life insurance, measured as described above, decreased \$3 million, from \$68 million in the first quarter of 2010 to \$65 million in the first quarter of 2011. The decrease in sales is primarily due to an \$8 million decrease in term life product sales in the third party distribution channel, partially offset by an increase in sales of both universal and variable life products. Sales from the third party distribution channel were \$3 million lower than the first quarter of 2010 due to lower sales of term life products. Our term sales in the first quarter of 2010 were not fully impacted by price increases implemented in late 2009 due to the timing lag between applications and sales.

*Policy Surrender Experience*

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

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|                                                                                                                                                 | Three Months Ended<br>March 31, |        |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                                                                                                 | 2011                            | 2010   |
|                                                                                                                                                 | (\$ in millions)                |        |
| Cash value of surrenders                                                                                                                        | \$ 189                          | \$ 170 |
| Cash value of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances, and separate account balances | 3.1%                            | 3.0%   |

*2011 to 2010 Three Month Comparison.* The total cash value of surrenders increased \$19 million, from \$170 million in the first quarter of 2010 to \$189 million in the first quarter of 2011, driven by the surrender of a single large variable corporate-owned life insurance policy in the first quarter of 2011. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances and separate account balances was relatively consistent at 3.0% in the first quarter of 2010 and 3.1% in the first quarter of 2011.

**Group Insurance***Operating Results*

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

|                                                                                                          | Three Months Ended<br>March 31, |          |
|----------------------------------------------------------------------------------------------------------|---------------------------------|----------|
|                                                                                                          | 2011                            | 2010     |
|                                                                                                          | (in millions)                   |          |
| <b>Operating results:</b>                                                                                |                                 |          |
| Revenues                                                                                                 | \$ 1,506                        | \$ 1,311 |
| Benefits and expenses                                                                                    | 1,466                           | 1,258    |
| Adjusted operating income                                                                                | 40                              | 53       |
| Realized investment gains (losses), net, and related adjustments(1)                                      | (6)                             | 5        |
| Related charges(2)                                                                                       | 0                               | 0        |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 34                           | \$ 58    |

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on interest credited to policyholders' account balances.

*Adjusted Operating Income*

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*2011 to 2010 Three Month Comparison.* Adjusted operating income decreased \$13 million, from \$53 million in the first quarter of 2010 to \$40 million in the first quarter of 2011, reflecting less favorable underwriting results in the first quarter of 2011 in our group disability business primarily related to higher incidence of new long-term disability claims. A \$9 million benefit in the first quarter of 2011 from cumulative premiums relating to prior periods on a large group life non-retrospectively experience-rated case, was more than offset by higher operating expenses driven by new business.

### *Revenues*

*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, increased by \$195 million, from \$1,311 million in the first quarter of 2010 to \$1,506 million in the first quarter of 2011. Group life premiums and policy charges and fee income increased by \$169 million, from \$841 million in the first quarter of 2010 to \$1,010 million in the first quarter of 2011. This increase primarily reflects

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higher premiums from non-retrospectively experience-rated contracts reflecting growth of business in force from new sales and strong persistency of 97% in the first quarter of 2011 compared to 93% in the first quarter of 2010, as well as higher premiums from retrospectively experience-rated contracts resulting from the increase in policyholder benefits on these contracts, as discussed below. The first quarter of 2011 also includes an increase of \$9 million from a premium adjustment on a large group life non-retrospectively experience-rated case, as discussed above. In addition, group disability premiums and policy charges and fee income, which include long-term care and dental products, increased by \$18 million, from \$281 million in the first quarter of 2010 to \$299 million in the first quarter of 2011 primarily reflecting growth of business in force from new sales.

*Benefits and Expenses*

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

|                                                   | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------------------|-----------------------------------------|-------------|
|                                                   | <b>2011</b>                             | <b>2010</b> |
| <b>Benefits ratio(1):</b>                         |                                         |             |
| Group life                                        | 92.3%                                   | 91.7%       |
| Group disability                                  | 94.3%                                   | 86.5%       |
| <b>Administrative operating expense ratio(2):</b> |                                         |             |
| Group life                                        | 8.1%                                    | 8.8%        |
| Group disability                                  | 21.6%                                   | 21.4%       |

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

*2011 to 2010 Three Month Comparison.* Benefits and expenses, as shown in the table above under Operating Results, increased by \$208 million, from \$1,258 million in the first quarter of 2010 to \$1,466 million in the first quarter of 2011. This increase reflects a \$199 million increase in policyholders' benefits, including the change in policy reserves, from \$1,014 million in the first quarter of 2010 to \$1,213 million in the first quarter of 2011. Our group life business reflected greater benefit costs from unfavorable claims experience, as well as growth in the business, including an increase in benefits on retrospectively experience-rated business that resulted in increased premiums, as discussed above. Our group disability business reflected higher incidence of new long-term disability claims, as discussed above. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth.

The group life benefits ratio deteriorated 0.6 percentage points from the first quarter of 2010 to the first quarter of 2011, primarily due to unfavorable claims experience on both non-retrospectively and retrospectively experience-rated business, partially offset by a premium adjustment, as discussed above. The group disability benefits ratio deteriorated 7.8 percentage points from the first quarter of 2010 to the first quarter of 2011 primarily due to higher incidence of new long-term disability claims. The group life administrative operating expense ratio improved 0.7 percentage points from the first quarter of 2010 to the first quarter of 2011 reflecting premium growth without a corresponding increase in expenses. The group disability administrative operating expense ratio remained relatively unchanged from the first quarter of 2010 to the first quarter of 2011.

**Table of Contents***Sales Results*

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

|                                             | <b>Three Months Ended<br/>March 31,</b> |               |
|---------------------------------------------|-----------------------------------------|---------------|
|                                             | <b>2011</b>                             | <b>2010</b>   |
|                                             | <b>(in millions)</b>                    |               |
| <b>Annualized new business premiums(1):</b> |                                         |               |
| Group life                                  | \$ 392                                  | \$ 257        |
| Group disability(2)                         | 108                                     | 89            |
| <b>Total</b>                                | <b>\$ 500</b>                           | <b>\$ 346</b> |

(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 and dental products.

*2011 to 2010 Three Month Comparison.* Total annualized new business premiums increased \$154 million, from \$346 million in the first quarter of 2010 to \$500 million in the first quarter of 2011. Group life sales increased \$135 million driven by higher large case sales to new customers. Group disability sales, which include long-term care and dental products, increased \$19 million primarily due to higher large case sales of long-term disability products to existing customers.

**International Insurance Division**

As a U.S.-based company with significant business operations outside the U.S., we are subject to foreign currency exchange rate risks that could reduce our U.S. dollar equivalent earnings or U.S. dollar equivalent equity in foreign subsidiaries. As discussed further below, we mitigate these risks through various hedging strategies that utilize derivative contracts and U.S. dollar asset holdings within our Japanese subsidiaries.

***Impact of foreign currency exchange rate movements on earnings***

The operations of our International Insurance segment are subject to currency fluctuations that can materially affect their U.S. dollar earnings from period to period even if earnings on a local currency basis are relatively constant. As discussed further below, we enter into forward currency derivative contracts, as well as dual currency and synthetic dual currency investments, as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar denominated earnings streams, thereby reducing earnings volatility from foreign currency exchange rate movements. In addition, our Japanese insurance operations offer a variety of non-yen denominated products which are supported by non-yen denominated investments in corresponding currencies. While these non-yen denominated assets and liabilities

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are economically hedged, the accounting for changes in value due to changes in foreign currency exchange rate movements differs, resulting in volatility in U.S. GAAP earnings.

### *Forward currency hedging program*

The financial results of our International Insurance segment for all periods presented reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments' non-U.S. dollar denominated earnings in all countries are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency income hedging program designed to mitigate the risk that unfavorable

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exchange rate changes will reduce the segments' U.S. dollar equivalent earnings. Pursuant to this program, Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar denominated earnings are expected to be generated. This program is primarily associated with our insurance operations in Japan including Star and Edison, net of expected integration-related costs, as well as Korea and Taiwan.

The intercompany arrangement with Corporate and Other operations increased (decreased) revenues and adjusted operating income of the International Insurance segment as follows for the periods indicated:

|                                                   | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------------------|-----------------------------------------|-------------|
|                                                   | <b>2011</b>                             | <b>2010</b> |
|                                                   | <b>(in millions)</b>                    |             |
| Impact on revenues and adjusted operating income: |                                         |             |
| International Insurance Segment                   | \$ (39)                                 | \$ (14)     |

Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segment and the gains or losses recorded from the forward currency contracts that settled during the period, which includes the impact of any over or under hedging of actual earnings as a result of projected earnings differing from actual earnings. The net impact of this program recorded within the Corporate and Other operations was zero for the three months ended March 31, 2011 and a loss of \$6 million for the three months ended March 31, 2010.

The notional amounts of these forward currency contracts were \$3.1 billion and \$3.0 billion as of March 31, 2011 and December 31, 2010, respectively, of which \$2.6 billion and \$2.5 billion as of March 31, 2011 and December 31, 2010, respectively, related to our Japanese insurance operations.

*Dual currency and synthetic dual currency investments*

In addition, our Japanese insurance operations, excluding Star and Edison, hold dual currency investments in the form of fixed maturities and loans. The principal of these dual currency investments are yen-denominated while the related interest income is U.S. dollar denominated. These investments are the economic equivalent of exchanging what would otherwise be fixed streams of yen-denominated interest income for fixed streams of U.S. dollar interest income. Our Japanese insurance operations, excluding Star and Edison, also hold yen-denominated investments that have been coupled with cross-currency coupon swap agreements, creating synthetic dual currency investments. The yen/U.S. dollar exchange rate is effectively fixed, as we are obligated in future periods to exchange fixed amounts of Japanese yen interest payments generated by the yen-denominated investments for U.S. dollars at the yen/U.S. dollar exchange rates specified by the cross-currency coupon swap agreements. As of both March 31, 2011 and December 31, 2010, the notional amount of these investments was ¥357 billion, or \$3.2 billion, based upon the foreign currency exchange rates applicable at the time these investments were acquired. The weighted average yield generated by these investments was 2.8% and 2.7% for the three months ended March 31, 2011 and 2010, respectively.

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

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|                                                                     | March 31,<br>2011 | December 31,<br>2010 |
|---------------------------------------------------------------------|-------------------|----------------------|
|                                                                     | (in millions)     |                      |
| Cross-currency coupon swap agreements                               | \$ (102)          | \$ (132)             |
| Foreign exchange component of interest on dual currency investments | (116)             | (114)                |
| Total                                                               | \$ (218)          | \$ (246)             |

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The table below presents as of March 31, 2011, the yen-denominated earnings subject to our dual currency and synthetic dual currency investments and the related weighted average exchange rates resulting from these investments.

| Year              | (1)<br>Interest component<br>of<br>dual<br>currency<br>investments | Cross-currency coupon<br>swap element of<br>synthetic dual currency<br>investments<br>(in billions) | Total Yen-denominated<br>earnings subject<br>to<br>these<br>investments | Weighted average<br>forward exchange rate<br>per U.S. Dollar<br>(Yen per \$) |
|-------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Remainder of 2011 | ¥ 2.8                                                              | ¥ 2.9                                                                                               | ¥ 5.7                                                                   | 84.7                                                                         |
| 2012              | 3.1                                                                | 2.9                                                                                                 | 6.0                                                                     | 83.0                                                                         |
| 2013              | 2.9                                                                | 2.5                                                                                                 | 5.4                                                                     | 81.6                                                                         |
| 2014              | 2.8                                                                | 2.5                                                                                                 | 5.3                                                                     | 81.7                                                                         |
| 2015-2034         | 27.6                                                               | 48.6                                                                                                | 76.2                                                                    | 79.1                                                                         |
| Total             | ¥ 39.2                                                             | ¥ 59.4                                                                                              | ¥ 98.6                                                                  | 79.9                                                                         |

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

The present value of the earnings reflected in the table above, on a U.S. dollar denominated basis, is \$0.9 billion as of March 31, 2011. The table above does not reflect the forward currency income hedging program discussed above. In establishing the level of yen-denominated earnings that will be hedged through the forward currency income hedging program we take into account the anticipated level of U.S. dollar denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of U.S. dollar denominated earnings that will be generated by U.S. dollar denominated products and investments, which are discussed in greater detail below.

*U.S. GAAP earnings impact of products denominated in non-local currencies*

Generally, our international insurance operations offer products denominated in local currency. Our Japanese insurance operations also offer products denominated in non-local currencies, primarily comprised of U.S. and Australian dollar denominated products. The non-yen denominated insurance liabilities related to these products, which as of March 31, 2011 amounted to \$25.8 billion, are supported by non-yen denominated investments in corresponding currencies, including a significant portion designated as available for sale, and other related non-yen denominated net assets, including accrued investment income, to support these products. These assets and liabilities are impacted by foreign currency exchange rate movements, as they are non-yen denominated items on the books of yen-based entities. While these non-yen denominated assets and liabilities are economically hedged, the accounting for changes in value due to changes in foreign currency exchange rate movements differs, resulting in volatility in U.S. GAAP earnings. For example, available for sale investments under U.S. GAAP are carried at fair value with changes in fair value (except as described below for impairments), including those from changes in foreign currency exchange rate movements, recorded as unrealized gains or losses in Accumulated other comprehensive income (loss), whereas the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, and the related change in value is recorded within Asset management fees and other income. Investments designated as held to maturity under U.S. GAAP, are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements, with the related change in value recorded within Asset management fees and other income. The change in value due to changes in foreign currency exchange rate movements, or remeasurement, of the related non-yen denominated assets and liabilities associated with these products is excluded from adjusted operating income and included in Realized investment gains (losses), net, and related adjustments.

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As of March 31, 2011 and December 31, 2010, our Japanese insurance operations had \$21.1 billion and \$9.7 billion, respectively, of U.S. dollar liabilities for U.S. dollar denominated products issued by these operations. The \$11.4 billion increase from December 31, 2010 is primarily driven by \$10.9 billion of additional liabilities for U.S. dollar denominated products issued by Star and Edison, all of which are supported by U.S. dollar

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denominated assets. Excluding Star and Edison, a portion of these liabilities are coinsured to our U.S. domiciled insurance operations and supported by U.S. dollar denominated assets. For the U.S. dollar liabilities retained in Japan, our Japanese operations hold U.S. dollar denominated investments, including a significant portion designated as available for sale, and other related U.S. dollar denominated net assets, including accrued investment income, to support these products. As discussed above, the change in value due to changes in foreign currency exchange rate movements, or remeasurement, of these assets and liabilities is excluded from adjusted operating income and included in Realized investment gains (losses), net, and related adjustments.

In addition, our Japanese insurance operations also had \$4.5 billion and \$1.9 billion as of March 31, 2011 and December 31, 2010, respectively, of Australian dollar denominated liabilities for Australian dollar denominated products issued by these operations. The \$2.6 billion increase from December 31, 2010 is primarily driven by \$2.3 billion of additional Australian dollar denominated liabilities for products issued by Star and Edison. These Australian dollar denominated liabilities are supported by Australian dollar denominated investments, including a significant portion designated as available for sale, and other related Australian dollar denominated net assets, including accrued investment income, to support these products. As discussed above, the change in value due to changes in foreign currency exchange rate movements, or remeasurement, of these assets and liabilities is excluded from adjusted operating income and included in Realized investment gains (losses), net, and related adjustments.

***Impact of foreign currency exchange rate movements on equity***

We also seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will reduce our U.S. dollar equivalent equity in foreign subsidiaries through various hedging strategies. We continue to refine our current capital management framework, and as we further develop this framework, or as other events occur, we may alter this strategy. We are in the process of evaluating the impact of the Star and Edison acquisition in relation to our existing capital management framework and we may further refine this framework or implement similar hedging strategies for the U.S. dollar equivalent equity of these acquired subsidiaries. Available economic capital represents the excess of the fair value of assets over the fair value of liabilities for the current in force block of business. In our Japanese insurance subsidiaries, excluding the recently acquired Star and Edison Businesses, we currently seek to hedge a portion of estimated available economic capital, including the amount attributable to the U.S. GAAP equity of these Japanese insurance subsidiaries which totaled \$5.1 billion as of March 31, 2011, excluding Accumulated other comprehensive income (loss) components of equity and certain other adjustments. We hedge a portion of the estimated available economic capital in these Japanese insurance subsidiaries through a variety of instruments, including U.S. dollar denominated assets. These assets are financed with yen-denominated liabilities and equity held in our Japanese insurance subsidiaries. In addition, we may also hedge estimated available economic capital using instruments held in our U.S. domiciled entities, such as U.S. dollar denominated debt that has been swapped to yen. In our Taiwan insurance operation, the U.S. GAAP equity exposure is mitigated by holding a variety of instruments, including U.S. dollar denominated investments. During 2009 and 2010, we terminated our hedges of the U.S. GAAP equity exposure of all of our other foreign operations, excluding our Japan and Taiwan insurance operations, due to a variety of considerations, including a desire to limit the potential for cash settlement outflows that would result from strengthening foreign currencies.

As of March 31, 2011, the aggregate amount of the instruments serving as hedges of our estimated available economic capital totaled \$7.2 billion, which includes the \$5.1 billion attributable to the U.S. GAAP equity of our Japanese insurance subsidiaries excluding Star and Edison as discussed above. This represents an increase of \$0.2 billion from the \$7.0 billion hedged as of December 31, 2010. These instruments were principally comprised of available for sale U.S. dollar denominated investments with an amortized cost of \$5.9 billion and held to maturity U.S. dollar denominated investments with an amortized cost of \$0.4 billion held in our Japanese insurance operations, as well as \$0.8 billion of net yen-denominated liabilities held in our U.S. domiciled entities, including a portion that has been converted to yen using swaps. The effects of the yen-denominated liabilities are reported in Corporate and Other operations. These amounts do not reflect the forward currency income hedging

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program or dual currency and synthetic dual currency investments discussed above, which when added to the \$7.2 billion of instruments serving as an equity hedge of a portion of the estimated available economic capital, results in a total estimated available economic capital hedge of approximately \$10.7 billion as of March 31, 2011, which is in excess of the U.S. GAAP equity of all our Japanese insurance subsidiaries, excluding Accumulated other comprehensive income (loss) components of equity and certain other adjustments. In addition, as discussed above, we have \$22.1 billion of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar denominated products issued by our Japanese operations, which when added to the \$10.7 billion of total estimated available economic capital hedge, results in total U.S. dollar instruments of approximately \$32.8 billion as of March 31, 2011. Of the \$22.1 billion of U.S. dollar assets supporting U.S. dollar liabilities as of March 31, 2011, \$11.2 billion represents U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar denominated products issued by Star and Edison.

Available for sale investments under U.S. GAAP are carried at fair value with unrealized changes in fair value (except as described below for impairments), including those from changes in foreign currency exchange rate movements, recorded as unrealized gains or losses in

Accumulated other comprehensive income (loss). Changes in the U.S. GAAP equity of our Japanese insurance operations due to foreign currency exchange rate movements are also recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation adjustment, and can serve as an offset to the unrealized changes in fair value of the available for sale investments. For the portion of available for sale investments that support our Japanese insurance operations U.S. GAAP equity this offset creates a natural equity hedge. For those U.S. dollar denominated investments, including available for sale investments, that support the portion of estimated available economic capital above our U.S. GAAP equity there is no offsetting impact to equity. In addition, the impact of foreign currency exchange rate movements on the U.S. GAAP equity of our Japanese insurance operations is partially offset by foreign currency exchange related changes in designated Yen-denominated debt and other hedging instruments held in our U.S. domiciled entities and recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation adjustment.

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

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

For U.S. dollar denominated investments recorded on the books of yen-based entities, foreign currency exchange movements, including those reflected in the forward curve at the time of purchase of these investments, will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar denominated investments will decrease as a result of changes in the foreign currency exchange rates. Upon the ultimate sale or maturity of the U.S. dollar denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized investment gains (losses), net within the income statement and, excluded from adjusted operating income. Similarly, other-than-temporary impairments on these investments may include the impact of changes in foreign currency exchange rates, which in certain circumstances will be included in Realized investment gains (losses), net within the

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income statement, and, as such, excluded from adjusted operating income. See **Realized Investment Gains and Losses and General Account Investments** **General Account Investments** **Fixed Maturity Securities** **Other-than-Temporary Impairments of Fixed Maturity Securities** for a discussion of our policies regarding impairments. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of our U.S. dollar denominated investments and negatively impact the equity of our yen-based entities by employing internal hedging strategies between a subsidiary of Prudential Financial and certain of our yen-based entities. See **Liquidity and Capital Resources** **Liquidity and Capital Resources of Subsidiaries** **International Insurance and Investments Subsidiaries** for a discussion of our internal hedging strategies.

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

### ***International Insurance***

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including, for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 92 yen per U.S. dollar and Korean won at a rate of 1190 won per U.S. dollar. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the **Sales Results** section below reflect translation based on these same uniform exchange rates.

**Table of Contents***Operating Results*

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

|                                                                                                          | Three Months Ended<br>March 31, |          |
|----------------------------------------------------------------------------------------------------------|---------------------------------|----------|
|                                                                                                          | 2011                            | 2010     |
|                                                                                                          | (in millions)                   |          |
| <b>Operating results:</b>                                                                                |                                 |          |
| Revenues:                                                                                                |                                 |          |
| Life Planner operations                                                                                  | \$ 2,102                        | \$ 1,833 |
| Gibraltar Life and Other operations                                                                      | 2,226                           | 1,114    |
|                                                                                                          | 4,328                           | 2,947    |
| Benefits and expenses:                                                                                   |                                 |          |
| Life Planner operations                                                                                  | 1,772                           | 1,506    |
| Gibraltar Life and Other operations                                                                      | 1,884                           | 950      |
|                                                                                                          | 3,656                           | 2,456    |
| Adjusted operating income:                                                                               |                                 |          |
| Life Planner operations                                                                                  | 330                             | 327      |
| Gibraltar Life and Other operations                                                                      | 342                             | 164      |
|                                                                                                          | 672                             | 491      |
| Realized investment gains (losses), net, and related adjustments(1)                                      | (317)                           | (283)    |
| Related charges(1)(2)                                                                                    | 12                              | 10       |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)             | (13)                            | 56       |
| Change in experience-rated contractholder liabilities due to asset value changes(4)                      | 13                              | (56)     |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)  | (158)                           | (10)     |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 209                          | \$ 208   |

- (1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. Realized investment gains (losses), net, and related adjustments includes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged, as discussed above. The related charges represent payments related to the market value adjustment features of certain of our annuity products and the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
- (2) Benefits and expenses exclude related charges that represent the element of Dividends to policyholders that is based on a portion of certain realized investment gains required to be paid to policyholders and the impact of Realized investment gains (losses), net, on the amortization of deferred policy acquisition costs.
- (3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes.
- (4) Benefits and expenses exclude changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes.
- (5) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line

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in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relate to the equity interests of minority investors.

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On April 6, 2011, the Company entered into a stock and asset purchase agreement to sell all of the issued and outstanding shares of capital stock of the Company's subsidiaries that conduct its Global Commodities Business and certain assets that are primarily used in connection with the Global Commodities Business. The transaction is expected to close in June 2011. As a result, the Company has reflected the results of the Global Commodities Business, which historically have been presented in the International Investments segment, as discontinued operations for all periods presented. In addition, the remaining business activities previously reported in the International Investments segment have been reclassified and included in the International Insurance segment as part of the Gibraltar Life and Other operations for all periods presented.

### *Acquisition of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities*

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was \$4,709 million, comprised of \$4,213 million in cash and \$496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan.

The addition of these operations increases our scale in the Japanese insurance market and provides complementary distribution opportunities. We also expect these businesses to provide attractive returns primarily driven from in force business and cost synergies. Star and Edison's bank channel distribution will be transferred and integrated with the bank channel operations of Gibraltar Life. In addition, we expect to integrate the core operations of Star and Edison, excluding their bank channel distribution, with our Gibraltar Life operations by early 2012, subject to local regulatory approvals. We expect pre-tax integration costs of approximately \$500 million to be incurred over a five year period, including approximately \$400 million during 2011 and 2012. After the integration is completed, we expect annual cost savings of approximately \$250 million. Actual integration costs may exceed, and actual costs savings may fall short of, such expectations.

The Gibraltar Life operations, including the Star and Edison Businesses, use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. Therefore, operating results presented in the table above includes results for Gibraltar Life for the three months ended February 28, 2011 and 2010, and one month of earnings for the Star and Edison Businesses, acquired on February 1, 2011.

### *Adjusted Operating Income*

*2011 to 2010 Three Month Comparison.* Adjusted operating income from our Life Planner operations increased \$3 million, from \$327 million in the first quarter of 2010 to \$330 million in the first quarter of 2011, with no impact from currency fluctuations. Current quarter results include a charge of \$19 million associated with estimated claims resulting from the Japanese earthquake and tsunami in March 2011. Excluding the impact of this charge, adjusted operating income increased \$22 million, primarily reflecting the growth of business in force and continued strong persistency in our Japanese Life Planner operations.

Adjusted operating income from our Gibraltar Life and Other operations increased \$178 million, from \$164 million in the first quarter of 2010 to \$342 million in the first quarter of 2011, including a favorable impact of \$6 million from currency fluctuations. In February 2011, a consortium of investors, including Prudential, that holds a minority interest in China Pacific Insurance (Group) Co., Ltd sold approximately 30% of its original holdings, which contributed a pre-tax gain of \$153 million to our results. Prudential's participation in the consortium is viewed as part of its strategic approach to China. Results for the first quarter of 2011 also include \$34 million of earnings from the inclusion of the Star and Edison Businesses from the date of acquisition, offset by \$39 million of transaction costs and \$8 million of integration costs relating to the

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acquisition. Absent the effect of these items and the impact of currency fluctuations, adjusted operating income increased \$32 million, reflecting business growth, including expanding bank channel sales of protection products, and improved investment results

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including a greater contribution from our fixed annuity products, which are primarily denominated in U.S. dollars, reflecting growth of that business and lower amortization of deferred policy acquisition costs. The lower amortization of deferred policy acquisition costs associated with our fixed annuity products was primarily driven by lower amortization rates reflecting an increase in investment results included in total gross profits used as a basis for determining amortization rates. These favorable variances were partially offset by higher development costs supporting bank and agency distribution channel growth. Also contributing to the increase in adjusted operating income for our Gibraltar Life and Other operations, results from our international investment operations improved \$3 million, from \$7 million in the first quarter of 2010 to \$10 million in the first quarter of 2011.

Due to the established one-month reporting lag discussed above, current quarter results for our Gibraltar Life operations, including Star and Edison, do not reflect the estimated claims costs arising from the March 2011 Japanese earthquake and tsunami. However, we currently estimate that the impact of claims arising from these events on these operations will result in a pre-tax charge in the second quarter of 2011 of approximately \$55 million.

*Revenues*

*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, increased \$1,381 million, from \$2,947 million in the first quarter of 2010 to \$4,328 million in the first quarter of 2011, including a net favorable impact of \$249 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased \$1,132 million, from \$2,946 million in the first quarter of 2010 to \$4,078 million in the first quarter of 2011.

Revenues from our Life Planner operations increased \$269 million, from \$1,833 million in the first quarter of 2010 to \$2,102 million in the first quarter of 2011, including a net favorable impact of \$107 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased \$162 million, from \$1,822 million in the first quarter of 2010 to \$1,984 million in the first quarter of 2011. This increase in revenues came primarily from increases in premiums and policy charges and fee income of \$115 million, from \$1,501 million in the first quarter of 2010 to \$1,616 million in the first quarter of 2011. Premiums and policy charges and fee income from our Japanese Life Planner operation increased \$98 million, from \$1,169 million in the first quarter of 2010 to \$1,267 million in the first quarter of 2011, primarily reflecting growth of business in force and continued strong persistency. Net investment income also increased \$36 million, from \$292 million in the first quarter of 2010 to \$328 million in the first quarter of 2011, primarily due to investment portfolio growth, partially offset by lower yields in our Japanese investment portfolio compared to the prior year quarter.

Revenues from our Gibraltar Life and Other operations increased \$1,112 million, from \$1,114 million in the first quarter of 2010 to \$2,226 million in the first quarter of 2011, including a favorable impact of \$142 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased \$970 million, from \$1,124 million in the first quarter of 2010 to \$2,094 million in the first quarter of 2011. This increase reflects a \$702 million increase in premiums, from \$758 million in the first quarter of 2010 to \$1,460 million in the first quarter of 2011, as premiums benefited from \$363 million in higher bank channel sales of single premium whole life due in part to increased sales in advance of a premium increase on our yen denominated product effective early February, 2011, and \$258 million of premiums from the acquisition of the Star and Edison Businesses. Higher first year premiums of \$65 million due to stronger sales of protection products through our bank distribution channels was partially offset by a \$50 million decrease in premiums reflecting the absence of the special dividend arrangement completed in 2010 established as part of Gibraltar Life's reorganization in 2001. Substantially all of the premiums recognized pursuant to the special dividend arrangement were offset by a corresponding charge to increase reserves for the affected policies. Also contributing to the increase in revenues is favorable investment income primarily reflecting the continued growth of our fixed annuity products and \$75 million of income on the acquired assets from Star and Edison, as well as higher other income reflecting the pre-tax gain of \$153 million related to the partial sale of our indirect investment in China Pacific Insurance (Group) Co., Ltd., discussed above.



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In some of the markets in which we operate, it is difficult to find appropriate long-duration assets to match the characteristics of our long-duration product liabilities. In Japan, we have historically sought to increase the duration of our Japanese yen investment portfolio by employing various strategies, including investing in longer-term securities or by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities and have resulted in higher portfolio yields. Based on an evaluation of market conditions, beginning in the fourth quarter of 2008 and continuing into the first quarter of 2009, we terminated or offset many of these interest rate swaps in consideration of, among other things, the interest rate environment. The resulting realized investment gains from terminating or offsetting these interest rate swaps will be recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives. For the three months ended March 31, 2011 and 2010, we recognized gains of \$13 million and \$8 million, respectively, in adjusted operating income related to these realized investment gains. As of March 31, 2011, \$699 million of deferred gains remain to be recognized in adjusted operating income over a weighted average period of 29 years. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and will implement these hedging strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields will depend on the interest rate environment at that time.

*Benefits and Expenses*

*2011 to 2010 Three Month Comparison.* Benefits and expenses, as shown in the table above under Operating Results, increased \$1,200 million, from \$2,456 million in the first quarter of 2010 to \$3,656 million in the first quarter of 2011, including a net unfavorable impact of \$243 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased \$957 million, from \$2,423 million in the first quarter of 2010 to \$3,380 million in the first quarter of 2011.

Benefits and expenses of our Life Planner operations increased \$266 million, from \$1,506 million in the first quarter of 2010 to \$1,772 million in the first quarter of 2011, including a net unfavorable impact of \$107 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased \$159 million, from \$1,484 million in the first quarter of 2010 to \$1,643 million in the first quarter of 2011. Benefits and expenses of our Japanese Life Planner operations increased \$131 million, from \$1,104 million in the first quarter of 2010 to \$1,235 million in the first quarter of 2011, primarily reflecting an increase in policyholder benefits due to changes in reserves, which was primarily driven by the growth in business in force and charges of \$19 million associated with estimated claims resulting from the Japanese earthquake and tsunami in March 2011.

Benefits and expenses of our Gibraltar Life and Other operations increased \$934 million, from \$950 million in the first quarter of 2010 to \$1,884 million in the first quarter of 2011, including an unfavorable impact of \$136 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased \$798 million, from \$939 million in the first quarter of 2010 to \$1,737 million in the first quarter of 2011. This increase reflects an increase in policyholder benefits, including changes in reserves, of \$614 million reflecting higher single premium whole life sales in the first quarter of 2011, the acquisition of the Star and Edison Businesses, and the absence of the effects of the special dividend arrangement discussed above. Also contributing to the increase in benefits and expenses is higher general and administrative expenses reflecting the impact of the Star and Edison acquisition, an additional \$47 million of acquisition-related expenses, as well as higher development costs supporting bank and agency distribution channel growth.

*Sales Results*

In managing our international insurance business, we analyze revenues, as well as annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the segment, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums



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include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts. Annualized new business premiums on an actual and constant exchange rate basis are as follows for the periods indicated.

|                                    | Three Months Ended<br>March 31,<br>20112010<br>(in millions) |        |
|------------------------------------|--------------------------------------------------------------|--------|
| Annualized new business premiums:  |                                                              |        |
| On an actual exchange rate basis:  |                                                              |        |
| Life Planner operations            | \$ 307                                                       | \$ 248 |
| Gibraltar Life(1)                  | 373                                                          | 163    |
| Total                              | \$ 680                                                       | \$ 411 |
| On a constant exchange rate basis: |                                                              |        |
| Life Planner operations            | \$ 286                                                       | \$ 244 |
| Gibraltar Life(1)                  | 347                                                          | 162    |
| Total                              | \$ 633                                                       | \$ 406 |

(1) Includes one month of annualized new business premiums for the Star and Edison Businesses, acquired February 1, 2011.

With a diversified product mix supporting the growing demand for retirement and savings products, our international insurance operations offer various traditional whole life, term and endowment policies (which provide for payment on the earlier of death or maturity), as well as retirement income life insurance products that combine an insurance protection element similar to that of term life policies with a retirement income feature. In most of our operations, we also offer certain health products with fixed benefits, as well as annuity products, which are primarily represented by U.S. and Australian dollar denominated fixed annuities in our Gibraltar Life operations.

Our Life Planners primary objective is to sell protection-oriented life insurance products on a needs basis to mass affluent and affluent customers whereas Gibraltar's Life Advisors have primarily sold individual protection products to the broad middle income market in Japan, particularly through relationships with affinity groups. Supplementing our core Life Planner and Life Advisor distribution channels, bank distribution channel sales primarily consist of products intended to provide premature death protection and retirement income, as well as fixed annuity products primarily denominated in U.S. dollars. The addition of the Star and Edison Businesses, with historical product offerings primarily comprised of individual life insurance, fixed annuities and certain health products with fixed benefits, significantly increases our scale in the Japanese insurance marketplace and also provides complementary distribution capabilities through an increased captive agency force, expanded bank channel distribution, as well as the addition of an established independent agency channel.

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Annualized new business premiums on a constant exchange rate basis, by product and distribution channel, are as follows for the periods indicated.

|                    | Three Months Ended March 31, 2011 |           |               |         |                        | Three Months Ended March 31, 2010 |           |               |         |        |
|--------------------|-----------------------------------|-----------|---------------|---------|------------------------|-----------------------------------|-----------|---------------|---------|--------|
|                    | Life                              | Health(1) | Retirement(2) | Annuity | Total<br>(in millions) | Life                              | Health(1) | Retirement(2) | Annuity | Total  |
| Life Planners      | \$ 109                            | \$ 44     | \$ 124        | \$ 9    | \$ 286                 | \$ 104                            | \$ 41     | \$ 90         | \$ 9    | \$ 244 |
| Gibraltar Life:    |                                   |           |               |         |                        |                                   |           |               |         |        |
| Life Advisors      | 76                                | 28        | 17            | 27      | 148                    | 56                                | 16        | 17            | 15      | 104    |
| Banks(3)           | 92                                | 9         | 5             | 22      | 128                    | 31                                | 0         | 13            | 12      | 56     |
| Independent Agency | 18                                | 47        | 2             | 4       | 71                     | 2                                 | 0         | 0             | 0       | 2      |
| Subtotal           | 186                               | 84        | 24            | 53      | 347                    | 89                                | 16        | 30            | 27      | 162    |
| Total              | \$ 295                            | \$ 128    | \$ 148        | \$ 62   | \$ 633                 | \$ 193                            | \$ 57     | \$ 120        | \$ 36   | \$ 406 |

(1) Includes medical insurance, cancer insurance and Accident & Sickness riders.

(2) Includes retirement income, endowment and savings variable universal life.

(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 34% and 48%, respectively, of total bank distribution channel annualized new business premiums from life products for the three months ended March 31, 2011, and 1% and 61%, respectively, of total bank distribution channel annualized new business premiums from life products for the three months ended March 31, 2010.

*2011 to 2010 Three Month Comparison.* On a constant exchange rate basis, annualized new business premiums increased \$227 million, from \$406 million in the first quarter of 2010 to \$633 million in the first quarter of 2011.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased \$42 million, primarily due to higher sales of U.S. dollar denominated retirement income products in Japan and higher sales of retirement products in Korea.

The number of Life Planners decreased by 68, or 1%, from 6,649 as of March 31, 2010 to 6,581 as of March 31, 2011, driven by decreases of 69 in Poland, 67 in Taiwan and 26 in Argentina, reflecting lower recruitment due to high competition and stringent selection standards, as well as resignations and terminations due in part to failure to meet minimum sales production standards. These decreases were partially offset by increases of 56 in Italy and 42 in Brazil. Over the past twelve months, we transferred 68 Japanese Life Planners to Gibraltar Life, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Life Planners would have remained unchanged, from March 31, 2010 to March 31, 2011. Prior to March 31, 2010, an additional 333 Japanese Life Planners were transferred to Gibraltar Life.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased \$185 million, from \$162 million in the first quarter of 2010 to \$347 million in the first quarter of 2011, with Star and Edison contributing \$85 million to this increase. Annualized new business premiums for Star and Edison include independent agency sales of \$23 million for the renewal of a large 10-year medical contract. Excluding Star and Edison, the increase in annualized new business premiums was driven by independent agency distribution sales of \$25 million, primarily cancer whole life products, and higher bank channel sales of \$70 million, primarily due to increased sales of protection products including \$36 million from single premium whole life sales due in part to increased sales in advance of a premium increase on our yen denominated product effective early February, 2011.

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The number of Life Advisors increased by 7,256 from 5,971 as of March 31, 2010 to 13,227 as of March 31, 2011. Excluding the addition of 7,269 Life Advisors from the acquisition of Star and Edison, Gibraltar's Life

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Advisors decreased 13 as new hires and 18 Life Planners transferred to Gibraltar Life as Life Advisors over the last twelve months were offset by resignations and terminations due in part to failure to meet minimum sales production standards. The remaining Life Planners transferred to Gibraltar Life, as discussed above, are not considered Life Advisors.

### *Investment Margins and Other Profitability Factors*

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

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the first quarter of 2011 and 2010 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

**Table of Contents****Corporate and Other**

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

Corporate operations consist primarily of: (1) investment returns on capital that is not deployed in any business segments; (2) returns from investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities and deferred compensation; (6) certain retained obligations relating to pre-demutualization policyholders whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation; (7) businesses that we have placed in wind-down status but have not divested; (8) results of our capital hedge program; and (9) the impact of transactions with other segments.

|                                                                                                                 | Three Months Ended<br>March 31, |          |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------|----------|
|                                                                                                                 | 2011                            | 2010     |
|                                                                                                                 | (in millions)                   |          |
| <b>Operating results:</b>                                                                                       |                                 |          |
| Corporate Operations:                                                                                           |                                 |          |
| Net investment income, net of interest expense, excluding capital debt interest expense                         | \$ (4)                          | \$ (21)  |
| Capital debt interest expense                                                                                   | (149)                           | (135)    |
| Pension income and employee benefits                                                                            | 36                              | 45       |
| Other corporate activities                                                                                      | (145)                           | (92)     |
| Total Corporate Operations(1)                                                                                   | (262)                           | (203)    |
| Real Estate and Relocation Services                                                                             | (10)                            | (7)      |
| Adjusted operating income                                                                                       | (272)                           | (210)    |
| Realized investment gains (losses), net, and related adjustments(2)                                             | 53                              | 72       |
| Related charges(3)                                                                                              | (3)                             | 0        |
| Divested businesses(4)                                                                                          | (1)                             | (7)      |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)         | (2)                             | (7)      |
| Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ (225)                        | \$ (152) |

(1) Includes consolidating adjustments.

(2) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(3) Benefits and expenses exclude related charges which represent consolidating adjustments.

(4) See Divested Businesses.

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

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*2011 to 2010 Three Month Comparison.* The loss from Corporate and Other operations, on an adjusted operating income basis, increased \$62 million, from \$210 million in the first quarter of 2010 to \$272 million in

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the first quarter of 2011. The loss from corporate operations increased \$59 million, from \$203 million in the first quarter 2010 to \$262 million in the first quarter 2011. Greater net charges from other corporate activities, primarily reflecting increased retained corporate expenses including corporate advertising, contributed to the increased loss. In addition, capital debt interest expense increased \$14 million due to a greater level of capital debt, which includes the issuance in November 2010 of \$1 billion of debt for the acquisition of the Star and Edison Businesses. The deficit included in results from net investment income, net of interest expense, excluding capital debt interest expense, decreased \$17 million reflecting the disposal of certain tax credit investments that resulted in equity method losses during the year ago-quarter and the redeployment of corporate debt to our business for both capital and operating purposes. Higher levels of short-term liquidity have been maintained throughout 2010 and 2011 to provide additional flexibility to address our cash needs in view of changing financial market conditions. The need to hold higher levels of short-term liquidity will result in higher than historical levels of cash and short-term investments in corporate operations until such time as capital is deployed to our business segments or invested longer-term. On February 1, 2011, we used a portion of this cash and short-term investments to partially fund the purchase price for the acquisition of the Star and Edison Businesses. See *Liquidity and Capital Resources* for additional details.

Results from corporate operations pension income and employee benefits decreased \$9 million. The decrease reflects a decrease in income from our qualified pension plan and increases in employee benefit costs. Income from our qualified pension plan decreased \$7 million, from \$80 million in the first quarter of 2010 to \$73 million in the first quarter of 2011.

Adjusted operating income of our real estate and relocation services business decreased \$3 million, from a loss of \$7 million in the first quarter of 2010 to a loss of \$10 million in the first quarter of 2011. The decrease in adjusted operating income is primarily due to a decrease in real estate franchise revenue reflecting lower transaction volume and average home sale prices, driven primarily by the unusual market activity in 2010 from the first time home-buyers tax credit.

### *Capital hedge program*

Corporate and Other operations includes the results of our capital hedge program which broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, as described under *Liquidity and Capital Resources* *Liquidity and Capital Resources of Subsidiaries* *Domestic Insurance Subsidiaries*. For the first quarter of 2011, the result of this hedge program was a loss of \$4 million.

In addition, we manage certain risks associated with our variable annuity products through our living benefit hedging program, which is described under *U.S. Retirement Solutions and Investment Management Division* *Individual Annuities*. Consistent with sound risk management practices, we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our hedge target definition is reported within Corporate and Other operations. For the three months ended March 31, 2011, Realized investment gains (losses), net and related adjustments includes a gain of \$55 million representing the impact of hedging to an amount that differed from our hedge target definition.

We assess the composition of our hedging program on an ongoing basis, and we may change it from time to time based on our evaluation of the Company's risk position or other factors.

## **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

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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.

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

As of March 31, 2011, the excess of actual cumulative earnings over the expected cumulative earnings was \$156 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$2,150 million at March 31, 2011, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss).

*Operating Results*

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

|                                                                                                          | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                          | <b>2011</b>                             | <b>2010</b> |
|                                                                                                          | <b>(in millions)</b>                    |             |
| <b>U.S. GAAP results:</b>                                                                                |                                         |             |
| Revenues                                                                                                 | \$ 1,547                                | \$ 1,792    |
| Benefits and expenses                                                                                    | 1,520                                   | 1,533       |
| Income from continuing operations before income taxes and equity in earnings of operating joint ventures | \$ 27                                   | \$ 259      |

*Income from Continuing Operations Before Income Taxes and Equity in Earnings of Operating Joint Ventures*

*2011 to 2010 Three Month Comparison.* Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased \$232 million, from \$259 million in the first quarter of 2010 to \$27 million in the first quarter of 2011. Results for the first

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quarter of 2011 include a decrease of \$244 million in net realized investment gains, from \$274 million in the first quarter of 2010 to \$30 million in the first quarter of 2011, primarily due to changes in the value of derivatives, driven by currency derivatives and interest rate swaps. For a discussion of Closed Block Business realized investment gains (losses), net, see      Realized Investment

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Gains and Losses and General Account Investments Realized Investment Gains and Losses. This decrease to income was partially offset by higher net investment income, net of interest expense, primarily due to an increase in income on joint venture and limited partnership investments accounted for under the equity method, as well as higher prepayment income from mortgage loans, partially offset by lower portfolio yields. The impact of these items contributed to the actual cumulative earnings which, when compared to the expected cumulative earnings, resulted in an increase in the cumulative earnings policyholder dividend obligation expense of \$30 million, from the first quarter of 2010 to the first quarter of 2011. In the first quarter of 2010, there was no policyholder dividend expense as actual earnings were below expected cumulative earnings. As noted above, as of March 31, 2011, the excess of actual cumulative earnings over the expected cumulative earnings was \$156 million. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block Business, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation.

*Revenues*

*2011 to 2010 Three Month Comparison.* Revenues, as shown in the table above under Operating Results, decreased \$245 million, from \$1,792 million in the first quarter of 2010 to \$1,547 million in the first quarter of 2011, principally driven by the \$244 million decrease in net realized investment gains (losses), as discussed above. Premiums also declined, with a related decrease in changes in reserves, primarily due to the expected in force decline as policies terminate. Partially offsetting these items was an increase in net investment income of \$10 million, as discussed above.

*Benefits and Expenses*

*2011 to 2010 Three Month Comparison.* Benefits and expenses, as shown in the table above under Operating Results, decreased \$13 million, from \$1,533 million in the first quarter of 2010 to \$1,520 million in the first quarter of 2011. This decrease included a \$26 million decline in policyholders' benefits, including changes in reserves, driven by a decrease in premiums, as discussed above. Also, amortization of deferred policy acquisition costs decreased \$8 million, reflecting the impact of investment gains on actual gross profits for the period compared to the prior period. Partially offsetting these items was a \$26 million increase in dividends to policyholders reflecting an increase in the cumulative earnings policyholder dividend obligation expense of \$30 million, partially offset by a decrease in dividends paid and accrued to policyholders of \$4 million, primarily due to a decline in policies in force. In the first quarter of 2010, there was no change in benefits and expenses resulting from changes in the policyholder dividend obligation since actual cumulative earnings were below expected cumulative earnings.

**Income Taxes**

Our income tax provision amounted to an income tax expense of \$190 million in the first quarter of 2011 compared to an expense of \$351 million in the first quarter of 2010. The decrease in income tax expense primarily reflects the decrease in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures from the first quarter of 2010 to the first quarter of 2011. In addition, income tax expense for the first quarter of 2010 included a charge for the reduction of deferred tax assets in the amount of \$94 million related to the Medicare Part D subsidy. The decrease in income tax expense was partially offset by \$10 million of an additional U.S. tax expense included in the first quarter of 2011 related to the realization of a portion of the local deferred tax assets existing on the opening day balance sheet for the Star and Edison Businesses. The local utilization of the deferred tax asset coupled with the repatriation assumption to the applicable earnings of our Japanese entities, creates the effect of a "double tax" for U.S. GAAP purposes. For additional information regarding income taxes, see Note 12 to the Unaudited Interim Consolidated Financial Statements.



**Table of Contents****Discontinued Operations**

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. Income from discontinued operations, net of taxes, was \$14 million and \$3 million for the three months ended March 31, 2011 and 2010, respectively.

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

**Divested Businesses**

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

|                                                                          | <b>Three Months Ended<br/>March 31,</b> |               |
|--------------------------------------------------------------------------|-----------------------------------------|---------------|
|                                                                          | <b>2011</b>                             | <b>2010</b>   |
|                                                                          | <b>(in millions)</b>                    |               |
| Financial Advisory                                                       | \$ (2)                                  | \$ (3)        |
| Other(1)                                                                 | 1                                       | (4)           |
| <b>Total divested businesses excluded from adjusted operating income</b> | <b>\$ (1)</b>                           | <b>\$ (7)</b> |

(1) Primarily includes Property and Casualty Insurance and Prudential Securities Capital Markets.

**Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and****Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes**

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

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Adjusted operating income excludes net investment gains and losses on both trading account assets supporting insurance liabilities and related derivatives. This is consistent with the exclusion of realized investment gains and losses with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains and losses on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected

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in Interest credited to policyholders' account balances. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

Results for the three months ended March 31, 2011 and 2010 include the recognition of net investment losses of \$17 million and net investment gains of \$252 million, respectively, on Trading account assets supporting insurance liabilities, at fair value. These net investment gains and losses primarily represent interest-rate related mark-to-market adjustments, which include the impact of changes in credit spreads on fixed maturity securities. In addition, results for the three months ended March 31, 2011 and 2010 include net investment losses of \$19 million and net investment gains of \$40 million, respectively, related to changes in the fair value of derivatives that support these experience-rated products. Consistent with our treatment of Realized investment gains (losses), net, these gains and losses, which are expected to ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the three months ended March 31, 2011 and 2010 include decreases of \$34 million and increases of \$320 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. Net investment gains and losses net of the increase in contractholder liabilities due to these asset valuation changes resulted in net losses of \$2 million and \$28 million for the three months ended March 31, 2011 and 2010, respectively. This primarily reflects timing differences between the recognition of the interest-rate related mark-to-market adjustments and the recognition of the recovery of these mark-to-market adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities. Decreases to these contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of \$8 million and \$12 million as of March 31, 2011 and 2010, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

In addition, as prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in value are reflected as a change in the liability to fully participating contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of \$1 million and \$49 million, for the three months ended March 31, 2011 and 2010, respectively.

## **Valuation of Assets and Liabilities**

### **Fair Value of Assets and Liabilities**

The authoritative guidance related to fair value established a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. See Note 13 to the Unaudited Interim Consolidated Financial Statements for a description of these levels.

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The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of March 31, 2011 and December 31, 2010, split between the Financial Services Businesses and Closed Block Business, by fair value hierarchy level. See Note 13 to the Unaudited Interim Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis presented on a consolidated basis.

|                                                                                      | Level 1       | Level 2        | Level 3(1)<br>(in millions) | Netting(2)     | Total          |
|--------------------------------------------------------------------------------------|---------------|----------------|-----------------------------|----------------|----------------|
| <b>Financial Services Businesses as of March 31, 2011</b>                            |               |                |                             |                |                |
| <b>Fixed maturities, available for sale:</b>                                         |               |                |                             |                |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0          | \$ 5,924       | \$ 0                        | \$             | \$ 5,924       |
| Obligations of U.S. states and their political subdivisions                          | 0             | 1,655          | 0                           |                | 1,655          |
| Foreign government bonds                                                             | 0             | 62,849         | 13                          |                | 62,862         |
| Corporate securities                                                                 | 6             | 90,454         | 1,040                       |                | 91,500         |
| Asset-backed securities                                                              | 0             | 5,594          | 2,295                       |                | 7,889          |
| Commercial mortgage-backed securities                                                | 0             | 9,563          | 143                         |                | 9,706          |
| Residential mortgage-backed securities                                               | 0             | 7,306          | 19                          |                | 7,325          |
| <b>Subtotal</b>                                                                      | <b>6</b>      | <b>183,345</b> | <b>3,510</b>                |                | <b>186,861</b> |
| <b>Trading account assets supporting insurance liabilities:</b>                      |               |                |                             |                |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0             | 322            | 0                           |                | 322            |
| Obligations of U.S. states and their political subdivisions                          | 0             | 181            | 0                           |                | 181            |
| Foreign government bonds                                                             | 0             | 625            | 0                           |                | 625            |
| Corporate securities                                                                 | 0             | 10,187         | 109                         |                | 10,296         |
| Asset-backed securities                                                              | 0             | 830            | 386                         |                | 1,216          |
| Commercial mortgage-backed securities                                                | 0             | 2,422          | 5                           |                | 2,427          |
| Residential mortgage-backed securities                                               | 0             | 1,455          | 3                           |                | 1,458          |
| Equity securities                                                                    | 1,034         | 135            | 81                          |                | 1,250          |
| Short-term investments and cash equivalents                                          | 484           | 55             | 0                           |                | 539            |
| <b>Subtotal</b>                                                                      | <b>1,518</b>  | <b>16,212</b>  | <b>584</b>                  |                | <b>18,314</b>  |
| <b>Other trading account assets:</b>                                                 |               |                |                             |                |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0             | 160            | 0                           |                | 160            |
| Obligations of U.S. states and their political subdivisions                          | 318           | 0              | 0                           |                | 318            |
| Foreign government bonds                                                             | 1             | 39             | 0                           |                | 40             |
| Corporate securities                                                                 | 4             | 148            | 38                          |                | 190            |
| Asset-backed securities                                                              | 0             | 490            | 83                          |                | 573            |
| Commercial mortgage-backed securities                                                | 0             | 82             | 21                          |                | 103            |
| Residential mortgage-backed securities                                               | 0             | 166            | 16                          |                | 182            |
| Equity securities                                                                    | 230           | 38             | 164                         |                | 432            |
| All other                                                                            | 82            | 7,064          | 103                         | (5,648)        | 1,601          |
| <b>Subtotal</b>                                                                      | <b>635</b>    | <b>8,187</b>   | <b>425</b>                  | <b>(5,648)</b> | <b>3,599</b>   |
| Equity securities, available for sale                                                | 2,637         | 2,174          | 1,475                       |                | 6,286          |
| Commercial mortgage and other loans                                                  | 0             | 94             | 178                         |                | 272            |
| Other long-term investments                                                          | 43            | 77             | 804                         |                | 924            |
| Short-term investments                                                               | 2,303         | 3,371          | 0                           |                | 5,674          |
| Cash equivalents                                                                     | 1,699         | 3,817          | 0                           |                | 5,516          |
| Other assets(4)                                                                      | 3,306         | (27)           | (2)                         |                | 3,277          |
| <b>Subtotal excluding separate account assets</b>                                    | <b>12,147</b> | <b>217,250</b> | <b>6,974</b>                | <b>(5,648)</b> | <b>230,723</b> |
| <b>Separate account assets(3)</b>                                                    | <b>45,441</b> | <b>156,309</b> | <b>16,632</b>               |                | <b>218,382</b> |

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|                        |           |            |           |            |            |
|------------------------|-----------|------------|-----------|------------|------------|
| Total assets           | \$ 57,588 | \$ 373,559 | \$ 23,606 | \$ (5,648) | \$ 449,105 |
| Future policy benefits | \$ 0      | \$ 0       | \$ (694)  | \$         | \$ (694)   |
| Long-term debt         | 0         | 0          | 0         |            | 0          |
| Other liabilities      | 0         | 6,793      | 3         | (5,557)    | 1,239      |
| Total liabilities      | \$ 0      | \$ 6,793   | \$ (691)  | \$ (5,557) | \$ 545     |

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|                                                                                      | Closed Block Business as of March 31, 2011 |           |            |            |           |
|--------------------------------------------------------------------------------------|--------------------------------------------|-----------|------------|------------|-----------|
|                                                                                      | Level 1                                    | Level 2   | Level 3(1) | Netting(2) | Total     |
|                                                                                      | (in millions)                              |           |            |            |           |
| Fixed maturities, available for sale:                                                |                                            |           |            |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                                       | \$ 6,180  | \$ 0       | \$         | \$ 6,180  |
| Obligations of U.S. states and their political subdivisions                          | 0                                          | 640       | 0          |            | 640       |
| Foreign government bonds                                                             | 0                                          | 641       | 14         |            | 655       |
| Corporate securities                                                                 | 0                                          | 26,788    | 657        |            | 27,445    |
| Asset-backed securities                                                              | 0                                          | 3,655     | 461        |            | 4,116     |
| Commercial mortgage-backed securities                                                | 0                                          | 3,739     | 0          |            | 3,739     |
| Residential mortgage-backed securities                                               | 0                                          | 2,179     | 2          |            | 2,181     |
| Subtotal                                                                             | 0                                          | 43,822    | 1,134      |            | 44,956    |
| Trading account assets supporting insurance liabilities                              | 0                                          | 0         | 0          |            | 0         |
| Other trading account assets:                                                        |                                            |           |            |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                                          | 0         | 0          |            | 0         |
| Obligations of U.S. states and their political subdivisions                          | 0                                          | 0         | 0          |            | 0         |
| Foreign government bonds                                                             | 0                                          | 0         | 0          |            | 0         |
| Corporate securities                                                                 | 0                                          | 123       | 0          |            | 123       |
| Asset-backed securities                                                              | 0                                          | 36        | 0          |            | 36        |
| Commercial mortgage-backed securities                                                | 0                                          | 0         | 0          |            | 0         |
| Residential mortgage-backed securities                                               | 0                                          | 0         | 0          |            | 0         |
| Equity securities                                                                    | 0                                          | 0         | 0          |            | 0         |
| All other                                                                            | 0                                          | 0         | 0          |            | 0         |
| Subtotal                                                                             | 0                                          | 159       | 0          |            | 159       |
| Equity securities, available for sale                                                | 3,642                                      | 2         | 180        |            | 3,824     |
| Commercial mortgage and other loans                                                  | 0                                          | 0         | 0          |            | 0         |
| Other long-term investments                                                          | (2)                                        | (69)      | 0          |            | (71)      |
| Short-term investments                                                               | 849                                        | 75        | 0          |            | 924       |
| Cash equivalents                                                                     | 123                                        | 327       | 0          |            | 450       |
| Other assets                                                                         | 0                                          | 106       | 11         |            | 117       |
| Subtotal excluding separate account assets                                           | 4,612                                      | 44,422    | 1,325      |            | 50,359    |
| Separate account assets(3)                                                           | 0                                          | 0         | 0          |            | 0         |
| Total assets                                                                         | \$ 4,612                                   | \$ 44,422 | \$ 1,325   | \$         | \$ 50,359 |
|                                                                                      |                                            |           |            |            |           |
| Future policy benefits                                                               | \$ 0                                       | \$ 0      | \$ 0       | \$         | \$ 0      |
| Long-term debt                                                                       | 0                                          | 0         | 0          |            | 0         |
| Other liabilities                                                                    | 0                                          | 0         | 0          |            | 0         |
| Total liabilities                                                                    | \$ 0                                       | \$ 0      | \$ 0       | \$         | \$ 0      |

- (1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5% and 3% for Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 3% for our Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.
- (2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.
- (3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by us with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in our Unaudited Interim Consolidated Statement of Financial Position.
- (4) The negative Other Assets amounts for Financial Services Businesses reflect the impact of inter-company eliminations.



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|                                                                                      | Financial Services Businesses as of December 31, 2010(4) |            |                             |            |            |
|--------------------------------------------------------------------------------------|----------------------------------------------------------|------------|-----------------------------|------------|------------|
|                                                                                      | Level 1                                                  | Level 2    | Level 3(1)<br>(in millions) | Netting(2) | Total      |
| Fixed maturities, available for sale:                                                |                                                          |            |                             |            |            |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                                                     | \$ 5,264   | \$ 0                        | \$         | \$ 5,264   |
| Obligations of U.S. states and their political subdivisions                          | 0                                                        | 1,574      | 0                           |            | 1,574      |
| Foreign government bonds                                                             | 0                                                        | 49,549     | 13                          |            | 49,562     |
| Corporate securities                                                                 | 5                                                        | 69,843     | 694                         |            | 70,542     |
| Asset-backed securities                                                              | 0                                                        | 5,713      | 1,348                       |            | 7,061      |
| Commercial mortgage-backed securities                                                | 0                                                        | 8,128      | 130                         |            | 8,258      |
| Residential mortgage-backed securities                                               | 0                                                        | 7,525      | 20                          |            | 7,545      |
| Subtotal                                                                             | 5                                                        | 147,596    | 2,205                       |            | 149,806    |
| Trading account assets supporting insurance liabilities:                             |                                                          |            |                             |            |            |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                                                        | 266        | 0                           |            | 266        |
| Obligations of U.S. states and their political subdivisions                          | 0                                                        | 182        | 0                           |            | 182        |
| Foreign government bonds                                                             | 0                                                        | 569        | 0                           |            | 569        |
| Corporate securities                                                                 | 0                                                        | 10,036     | 82                          |            | 10,118     |
| Asset-backed securities                                                              | 0                                                        | 804        | 226                         |            | 1,030      |
| Commercial mortgage-backed securities                                                | 0                                                        | 2,402      | 5                           |            | 2,407      |
| Residential mortgage-backed securities                                               | 0                                                        | 1,345      | 18                          |            | 1,363      |
| Equity securities                                                                    | 935                                                      | 200        | 4                           |            | 1,139      |
| Short-term investments and cash equivalents                                          | 606                                                      | 91         | 0                           |            | 697        |
| Subtotal                                                                             | 1,541                                                    | 15,895     | 335                         |            | 17,771     |
| Other trading account assets:                                                        |                                                          |            |                             |            |            |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                                                        | 96         | 0                           |            | 96         |
| Obligations of U.S. states and their political subdivisions                          | 118                                                      | 0          | 0                           |            | 118        |
| Foreign government bonds                                                             | 1                                                        | 24         | 0                           |            | 25         |
| Corporate securities                                                                 | 14                                                       | 151        | 35                          |            | 200        |
| Asset-backed securities                                                              | 0                                                        | 574        | 50                          |            | 624        |
| Commercial mortgage-backed securities                                                | 0                                                        | 84         | 19                          |            | 103        |
| Residential mortgage-backed securities                                               | 0                                                        | 163        | 18                          |            | 181        |
| Equity securities                                                                    | 392                                                      | 142        | 26                          |            | 560        |
| All other                                                                            | 33                                                       | 7,899      | 134                         | (5,904)    | 2,162      |
| Subtotal                                                                             | 558                                                      | 9,133      | 282                         | (5,904)    | 4,069      |
| Equity securities, available for sale                                                | 1,038                                                    | 2,788      | 322                         |            | 4,148      |
| Commercial mortgage and other loans                                                  | 0                                                        | 136        | 212                         |            | 348        |
| Other long-term investments                                                          | 37                                                       | 169        | 768                         |            | 974        |
| Short-term investments                                                               | 2,171                                                    | 1,641      | 0                           |            | 3,812      |
| Cash equivalents                                                                     | 2,332                                                    | 6,359      | 0                           |            | 8,691      |
| Other assets                                                                         | 2,785                                                    | (107)      | (2)                         |            | 2,676      |
| Subtotal excluding separate account assets                                           | 10,467                                                   | 183,610    | 4,122                       | (5,904)    | 192,295    |
| Separate account assets(3)                                                           | 43,273                                                   | 148,711    | 15,792                      |            | 207,776    |
| Total assets                                                                         | \$ 53,740                                                | \$ 332,321 | \$ 19,914                   | \$ (5,904) | \$ 400,071 |
| Future policy benefits                                                               |                                                          |            |                             |            |            |
| Long-term debt                                                                       | 0                                                        | 0          | 0                           |            | 0          |
| Other liabilities                                                                    | 1                                                        | 6,736      | 2                           | (5,712)    | 1,027      |
| Total liabilities                                                                    | \$ 1                                                     | \$ 6,736   | \$ (202)                    | \$ (5,712) | \$ 823     |



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|                                                                                      | Closed Block Business as of December 31, 2010(4) |           |            |            |           |
|--------------------------------------------------------------------------------------|--------------------------------------------------|-----------|------------|------------|-----------|
|                                                                                      | Level 1                                          | Level 2   | Level 3(1) | Netting(2) | Total     |
|                                                                                      | (in millions)                                    |           |            |            |           |
| Fixed maturities, available for sale:                                                |                                                  |           |            |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                                             | \$ 6,034  | \$ 0       | \$         | \$ 6,034  |
| Obligations of U.S. states and their political subdivisions                          | 0                                                | 657       | 0          |            | 657       |
| Foreign government bonds                                                             | 0                                                | 663       | 14         |            | 677       |
| Corporate securities                                                                 | 0                                                | 27,182    | 493        |            | 27,675    |
| Asset-backed securities                                                              | 0                                                | 3,525     | 405        |            | 3,930     |
| Commercial mortgage-backed securities                                                | 0                                                | 3,779     | 0          |            | 3,779     |
| Residential mortgage-backed securities                                               | 0                                                | 2,422     | 3          |            | 2,425     |
| Subtotal                                                                             | 0                                                | 44,262    | 915        |            | 45,177    |
| Trading account assets supporting insurance liabilities                              | 0                                                | 0         | 0          |            | 0         |
| Other trading account assets:                                                        |                                                  |           |            |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                                                | 0         | 0          |            | 0         |
| Obligations of U.S. states and their political subdivisions                          | 0                                                | 0         | 0          |            | 0         |
| Foreign government bonds                                                             | 0                                                | 0         | 0          |            | 0         |
| Corporate securities                                                                 | 0                                                | 118       | 0          |            | 118       |
| Asset-backed securities                                                              | 0                                                | 33        | 4          |            | 37        |
| Commercial mortgage-backed securities                                                | 0                                                | 0         | 0          |            | 0         |
| Residential mortgage-backed securities                                               | 0                                                | 0         | 0          |            | 0         |
| Equity securities                                                                    | 1                                                | 0         | 0          |            | 1         |
| All other                                                                            | 0                                                | 0         | 0          |            | 0         |
| Subtotal                                                                             | 1                                                | 151       | 4          |            | 156       |
| Equity securities, available for sale                                                | 3,420                                            | 140       | 33         |            | 3,593     |
| Commercial mortgage and other loans                                                  | 0                                                | 0         | 0          |            | 0         |
| Other long-term investments                                                          | 0                                                | (40)      | 0          |            | (40)      |
| Short-term investments                                                               | 1,136                                            | 28        | 0          |            | 1,164     |
| Cash equivalents                                                                     | 143                                              | 302       | 0          |            | 445       |
| Other assets                                                                         | 0                                                | 107       | 11         |            | 118       |
| Subtotal excluding separate account assets                                           | 4,700                                            | 44,950    | 963        |            | 50,613    |
| Separate account assets (3)                                                          | 0                                                | 0         | 0          |            | 0         |
| Total assets                                                                         | \$ 4,700                                         | \$ 44,950 | \$ 963     | \$         | \$ 50,613 |
| Future policy benefits                                                               | \$ 0                                             | \$ 0      | \$ 0       | \$         | \$ 0      |
| Long-term debt                                                                       | 0                                                | 0         | 0          |            | 0         |
| Other liabilities                                                                    | 0                                                | 0         | 1          |            | 1         |
| Total liabilities                                                                    | \$ 0                                             | \$ 0      | \$ 1       | \$         | \$ 1      |

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5% and 2% for the Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 2% for the Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

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

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

(4) Includes reclassifications to conform to current period presentation.



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For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 13 to the Unaudited Interim Consolidated Financial Statements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations. As discussed in more detail below, the determination of fair value for certain assets and liabilities may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. For a description of the key estimates and assumptions used in our determination of fair value, see Note 13 to the Unaudited Interim Consolidated Financial Statements. The following sections provide additional information regarding certain assets and liabilities of our Financial Services Businesses and our Closed Block Business which are valued using Level 3 inputs and could have a significant impact on our results of operations. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is primarily borne by our customers and policyholders.

### ***Fixed Maturity and Equity Securities***

Public fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or non-binding broker quotes. For public fixed maturity securities, we generally use the price provided by the independent pricing services under our normal pricing protocol. Securities with prices based on validated quotes from pricing services are generally reflected within Level 2. For certain private fixed maturity and equity securities, the discounted cash flow or other valuation model uses significant unobservable inputs, and accordingly, such securities are included in Level 3 in our fair value hierarchy.

Level 3 fixed maturity securities included approximately \$3.4 billion as of March 31, 2011 and \$2.1 billion as of December 31, 2010 of public fixed maturities, with values primarily based on non-binding broker quotes, and approximately \$1.9 billion as of March 31, 2011 and \$1.4 billion as of December 31, 2010 of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data.

The impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available for sale, or held to maturity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. For our investments classified as available for sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), a separate component of equity. Our investments classified as held to maturity are carried at amortized cost.

### ***Other Long-Term Investments***

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 totaled approximately \$0.5 billion and \$0.4 billion as of

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March 31, 2011 and December 31, 2010. Our direct investment in these funds is not material, and the majority of

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the assets recorded as a result of the consolidation of these funds are offset by a noncontrolling interest reflected as a separate component of equity. The noncontrolling interest is not considered to be fair valued and therefore is not included in fair value reporting above. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have also been included within Level 3 in our fair value hierarchy. Investments in these funds included in Level 3 totaled approximately \$0.3 billion as of both March 31, 2011 and December 31, 2010.

***Derivative Instruments***

Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models, and are affected by changes in market factors including non-performance risk. The majority of our derivative positions are traded in the over the counter, or OTC, derivative market and are classified within Level 2 in our fair value hierarchy since they have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. Our policy is to use mid-market pricing consistent with our best estimate of fair value.

Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured products. These derivatives are valued based upon models with some significant unobservable market inputs or inputs from less actively traded markets. Derivatives classified within Level 3 are validated through periodic comparison of our fair values to broker-dealer values. The fair values of OTC derivative assets and liabilities classified as Level 3 totaled approximately \$94 million and \$3 million, respectively, as of March 31, 2011 and \$126 million and \$3 million, respectively, as of December 31, 2010, without giving consideration to the impact of netting.

For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Variable Annuity Optional Living Benefit Features below.

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

***Variable Annuity Optional Living Benefit Features***

Our liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits ( GMAB ), guaranteed minimum withdrawal benefits ( GMWB ) and guaranteed minimum income and withdrawal benefits ( GMIWB ). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are carried at fair value with changes in fair value included in Realized investment gains (losses), net.

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The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or an asset balance, given changing capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for

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the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. Because there are significant assumptions utilized in the valuation of the embedded derivatives associated with our optional living benefit features that are primarily unobservable, the liability included in future policy benefits has been reflected within Level 3 in our fair value hierarchy.

We are also required to incorporate the market perceived risk of our own non-performance in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the financial strength ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our own risk of non-performance. To reflect the market's perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivative liabilities. The additional spread over LIBOR rates incorporated into the discount rate as of March 31, 2011 generally ranged from 50 to 150 basis points for the portion of the interest rate curve most relevant to these liabilities. This additional spread is applied at an individual contract level and only to those embedded derivatives in a liability position and not to those in an asset position. As of March 31, 2011, the fair value of the embedded derivatives associated with the optional living benefit features of the Individual Annuities segment, before the adjustment for the market's perception of our own non-performance risk, was a net asset of \$78 million. This net asset was comprised of \$1,295 million of embedded derivative assets net of \$1,217 million of liabilities. For the first quarter of 2011, our adjustment for the market's perception of our own non-performance risk decreased \$125 million for the Individual Annuities segment primarily due to a reduction in embedded derivatives in a liability position primarily from higher interest rates and favorable market conditions. At March 31, 2011, our adjustment for the market's perception of our own non-performance risk resulted in a \$598 million decrease to the embedded derivative liability for the Individual Annuities segment, reflecting the additional spread over LIBOR we incorporated into the discount rate used in the valuations of those embedded derivatives in a liability position.

The change in fair value of the GMAB, GMWB and GMIWB resulted in an increase in the asset of \$490 million, from \$204 million as of December 31, 2010 to \$694 million as of March 31, 2011. The increase primarily reflects lower expected future benefit payments and higher expected fees, primarily resulting from an increase in policyholder account balances driven by favorable market conditions in the first quarter of 2011. These changes were significantly offset by decreased amortization of deferred policy acquisition and other costs, and changes in value of related hedging instruments, primarily in our Individual Annuities segment as described in more detail under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

**Realized Investment Gains and Losses and General Account Investments****Realized Investment Gains and Losses**

Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for other-than-temporary impairments. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, net changes in the allowance for losses, as well as gains and losses on sales, certain restructurings, and foreclosures on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment, except those derivatives used in our capacity as a broker or dealer.

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



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the related methodology for recording equity impairments, see General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities below. For a further discussion of our policy regarding commercial mortgage and other loans, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

The level of other-than-temporary impairments generally reflects economic conditions and is generally expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. As discussed in more detail below, certain of the other-than-temporary impairments recognized for the three months ended March 31, 2011 primarily related to asset-backed securities collateralized by sub-prime mortgages and Japanese commercial mortgage-backed securities and reflect adverse financial conditions of the respective issuers and foreign currency translation losses related to foreign denominated securities that are approaching maturity, while other-than-temporary impairments in the first quarter of 2010 related to Japanese commercial mortgage-backed securities and reflect adverse financial conditions of the respective issuers.

We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. Other-than-temporary impairments, interest rate related losses and credit related losses on sales (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income.

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

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

Adjusted operating income generally excludes Realized investment gains (losses), net, subject to certain exceptions (realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings and those associated with terminating hedges of foreign currency earnings and current period yield adjustments), and related charges and adjustments.

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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 periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 11 to the Unaudited Interim Consolidated Financial Statements.

|                                                                  | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                  | <b>2011</b>                             | <b>2010</b> |
|                                                                  | <b>(in millions)</b>                    |             |
| <b>Realized investment gains (losses), net:</b>                  |                                         |             |
| Financial Services Businesses                                    | \$ (80)                                 | \$ 115      |
| Closed Block Business                                            | 30                                      | 274         |
| Consolidated realized investment gains (losses), net             | \$ (50)                                 | \$ 389      |
| <b>Financial Services Businesses:</b>                            |                                         |             |
| Realized investment gains (losses), net:                         |                                         |             |
| Fixed maturity securities                                        | \$ (4)                                  | \$ (217)    |
| Equity securities                                                | 3                                       | (10)        |
| Commercial mortgage and other loans                              | 6                                       | (15)        |
| Derivative instruments                                           | (98)                                    | 358         |
| Other                                                            | 13                                      | (1)         |
| Total                                                            | (80)                                    | 115         |
| Related adjustments(1)                                           | (276)                                   | (48)        |
| Realized investment gains (losses), net, and related adjustments | \$ (356)                                | \$ 67       |
| Related charges(2)                                               | \$ (4)                                  | \$ (127)    |
| <b>Closed Block Business:</b>                                    |                                         |             |
| Realized investment gains (losses), net:                         |                                         |             |
| Fixed maturity securities                                        | \$ 29                                   | \$ (6)      |
| Equity securities                                                | 59                                      | 51          |
| Commercial mortgage and other loans                              | 5                                       | 8           |
| Derivative instruments                                           | (63)                                    | 218         |
| Other                                                            | 0                                       | 3           |
| Total                                                            | \$ 30                                   | \$ 274      |

(1) Related adjustments include that portion of Realized investment gains (losses), net, that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those within certain of our businesses for which such gains (losses) are a principal source of earnings. Related adjustments also include that portion of Asset management fees and other income that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure, realized and unrealized gains and losses on certain general account investments classified as Other trading account assets, as well as counterparty credit losses on derivative positions. See Note 11 to the Unaudited Interim Consolidated Financial Statements for additional information on these related adjustments.

(2) Reflects charges that are excluded from adjusted operating income, as described more fully in Note 11 to the Unaudited Interim Consolidated Financial Statements.

**2011 to 2010 Three Month Comparison**

*Financial Services Businesses*

The Financial Services Businesses' net realized investment losses in the first quarter of 2011 were \$80 million, compared to net realized investment gains of \$115 million in the first quarter of 2010.

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Net realized losses on fixed maturity securities were \$4 million in the first quarter of 2011, compared to net realized losses of \$217 million in the first quarter of 2010, as set forth in the following table:

|                                                                                                        | <b>Three Months Ended<br/>March 31,</b> |                 |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|
|                                                                                                        | <b>2011</b>                             | <b>2010</b>     |
|                                                                                                        | <b>(in millions)</b>                    |                 |
| <b>Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses</b> |                                         |                 |
| Gross realized investment gains:                                                                       |                                         |                 |
| Gross gains on sales and maturities(1)                                                                 | \$ 123                                  | \$ 43           |
| Private bond prepayment premiums                                                                       | 10                                      | 7               |
| <b>Total gross realized investment gains</b>                                                           | <b>133</b>                              | <b>50</b>       |
| Gross realized investment losses:                                                                      |                                         |                 |
| Net other-than-temporary impairments recognized in earnings(2)                                         | (79)                                    | (216)           |
| Gross losses on sales and maturities(1)                                                                | (57)                                    | (47)            |
| Credit related losses on sales                                                                         | (1)                                     | (4)             |
| <b>Total gross realized investment losses</b>                                                          | <b>(137)</b>                            | <b>(267)</b>    |
| <b>Realized investment gains (losses), net Fixed Maturity Securities</b>                               | <b>\$ (4)</b>                           | <b>\$ (217)</b> |
| <b>Net gains (losses) on sales and maturities Fixed Maturity Securities(1)</b>                         | <b>\$ 66</b>                            | <b>\$ (4)</b>   |

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

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

Net trading gains on sales and maturities of fixed maturity securities in the first quarter of 2011 were \$66 million and were primarily due to sales within our Retirement and Individual Annuities segments. Included in the net gains on sales and maturities of fixed maturity securities were \$28 million of net gains related to the sale of asset-backed securities collateralized by sub-prime mortgages. Net trading losses on sales and maturities of fixed maturity securities in the first quarter of 2010 were \$4 million primarily due to sales within our International Insurance operations, Retirement and Individual Annuities segments. Net losses on sales and maturities in the first quarter of 2010 included \$1 million related to asset-backed securities collateralized by sub-prime mortgages. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first quarter of 2011 and 2010.

Net realized gains on equity securities were \$3 million in the first quarter of 2011, of which net trading gains on sales of equity securities were \$16 million, partially offset by other-than-temporary impairments of \$13 million. Net trading gains in the first quarter of 2011 were primarily due to public equity sales within our International Insurance operations. Net realized losses on equity securities were \$10 million in the first quarter of 2010, of which other-than-temporary impairments were \$66 million and net trading gains on sales of equity securities were \$56 million. Net trading gains in the first quarter of 2010 were due to private equity sales within our Corporate and Other operations. See below for additional information regarding the other-than-temporary impairments of equity securities in the first quarter of 2011 and 2010.

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Net realized gains on commercial mortgage and other loans in the first quarter of 2011 were \$6 million and primarily related to a net decrease in the loan loss reserves of \$12 million, partially offset by mark-to-market losses on our interim loan portfolio of \$6 million within our commercial mortgage operations. Net realized losses on commercial mortgage and other loans in the first quarter of 2010 were \$15 million primarily related to mark-to-market losses on our interim loan portfolio within our commercial mortgage operations partially offset

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by a net decrease in the loan loss reserve of \$29 million. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized losses on derivatives were \$98 million in the first quarter of 2011, compared to net realized gains of \$358 million in the first quarter of 2010. The net derivative losses in the first quarter of 2011 primarily reflect net losses of \$167 million on interest rate derivatives used to manage duration as interest rates increased and net losses of \$28 million on credit derivatives as credit spreads generally tightened. Partially offsetting these losses were net gains of \$53 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses primarily in Japan due to the strengthening of the U.S. dollar, and net gains of \$28 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also, contributing to the net derivative gains were net gains of \$23 million on embedded derivatives associated with certain externally-managed investments in the European market. The net derivative gains in the first quarter of 2010 primarily reflect net gains of \$123 million on interest rate derivatives used to manage duration. Also contributing to these gains are net derivative gains of \$117 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information.

Net realized gains on other investments were \$13 million in the first quarter of 2011, which reflected \$3 million of other-than-temporary impairments on joint ventures and partnerships and real estate investments. Net realized losses on other investments were \$1 million in the first quarter of 2010, which included \$6 million of other-than-temporary impairments on joint ventures and partnerships and real estate investments.

Related adjustments to realized investment gains (losses) of \$(276) million in the first quarter of 2011 include losses of \$204 million due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure and certain other adjustments, including a \$95 million loss resulting from an out of period adjustment related to the amortization of unrealized losses associated with U.S. dollar denominated collateralized mortgage-backed securities held by our Gibraltar Life operations. See Note 11 to the Unaudited Interim Consolidated Financial Statements for further details on this adjustment. Also contributing to the related adjustments for the first quarter of 2011 was a \$65 million additional loss related to the unsecured portion of our counterparty exposure on derivative transactions we had previously held with Lehman Brothers and affiliates. Any subsequent recoveries of this settlement will also be included as a related adjustment to realized investment gains (losses), net. See Note 15 to the Unaudited Interim Consolidated Financial Statements for further details. Related adjustments of \$(48) million in the first quarter of 2010 include losses of \$55 million due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure.

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During the first quarter of 2011, we recorded other-than-temporary impairments of \$95 million in earnings, compared to total other-than-temporary impairments of \$288 million recorded in earnings in the first quarter of 2010. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

|                                                       | Three Months Ended<br>March 31,<br>20112010<br>(in millions) |        |
|-------------------------------------------------------|--------------------------------------------------------------|--------|
| Other-than-temporary impairments recorded in earnings | Financial Services Businesses(1)                             |        |
| Public fixed maturity securities                      | \$ 65                                                        | \$ 130 |
| Private fixed maturity securities                     | 14                                                           | 86     |
| Total fixed maturity securities                       | 79                                                           | 216    |
| Equity securities                                     | 13                                                           | 66     |
| Other invested assets(2)                              | 3                                                            | 6      |
| Total                                                 | \$ 95                                                        | \$ 288 |

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

(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships and real estate investments.

|                                                                                                                            | <b>Three Months Ended March 31, 2011</b>                                     |                                                                      |                                                |
|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------|
|                                                                                                                            | <b>Asset-Backed Securities<br/>Collateralized By Sub-Prime<br/>Mortgages</b> | <b>All Other Fixed<br/>Maturity<br/>Securities<br/>(in millions)</b> | <b>Total Fixed<br/>Maturity<br/>Securities</b> |
| <b>Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)</b> |                                                                              |                                                                      |                                                |
| Due to credit events or adverse conditions of the respective issuer(2)                                                     | \$ 21                                                                        | \$ 23                                                                | \$ 44                                          |
| Due to other accounting guidelines(3)                                                                                      | 10                                                                           | 25                                                                   | 35                                             |
| Total                                                                                                                      | \$ 31                                                                        | \$ 48                                                                | \$ 79                                          |

|                                                                                                                            | <b>Three Months Ended March 31, 2010</b>                                     |                                                                      |                                                |
|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------|
|                                                                                                                            | <b>Asset-Backed Securities<br/>Collateralized By Sub-Prime<br/>Mortgages</b> | <b>All Other Fixed<br/>Maturity<br/>Securities<br/>(in millions)</b> | <b>Total Fixed<br/>Maturity<br/>Securities</b> |
| <b>Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)</b> |                                                                              |                                                                      |                                                |
| Due to credit events or adverse conditions of the respective issuer(2)                                                     | \$ 41                                                                        | \$ 125                                                               | \$ 166                                         |
| Due to other accounting guidelines(3)                                                                                      | 9                                                                            | 41                                                                   | 50                                             |
| Total                                                                                                                      | \$ 50                                                                        | \$ 166                                                               | \$ 216                                         |

(1)

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

- (2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

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- (3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in the first quarter of 2011 were concentrated in asset-backed securities collateralized by sub-prime mortgages and Japanese commercial mortgage-backed securities. These other-than-temporary impairments reflect adverse financial conditions of the respective issuers and foreign currency translation losses related to foreign denominated securities that are approaching maturity. Our Japanese insurance operations hold U.S. dollar-denominated investments, which in some cases, due primarily to the strengthening of the yen, are currently in an unrealized loss position. As they approach maturity and remain in an unrealized loss position, it becomes less likely that the exchange rates will recover and more likely that losses will be realized upon maturity. Accordingly, additional impairments would be recorded in earnings. As of March 31, 2011 gross unrealized losses related to these securities maturing between April 1, 2011 and December 31, 2013 are \$289 million. Absent a change in currency rates, impairments of approximately \$111 million would be recorded in earnings over the remaining nine months of 2011 and \$46 million in 2012. During the first quarter of 2011, we recorded other-than-temporary impairments of \$20 million in earnings related to unrealized foreign currency translation losses that are approaching maturity. Fixed maturity other-than-temporary impairments in the first quarter of 2010 were concentrated in Japanese commercial mortgage backed securities, asset-backed securities collateralized by sub-prime mortgages, and the finance sector of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Equity security other-than-temporary impairments in the first quarter of 2011 and 2010 were primarily driven by circumstances where the decline in value was maintained for one year or greater.

*Closed Block Business*

For the Closed Block Business, net realized investment gains in the first quarter of 2011 were \$30 million, compared to net realized investment gains of \$274 million in the first quarter of 2010.

Net realized gains on fixed maturity securities were \$29 million in the first quarter of 2011, compared to net realized losses of \$6 million in the first quarter of 2010, as set forth in the following table:

|                                                                                                | <b>Three Months Ended<br/>March 31,<br/>2011      2010<br/>(in millions)</b> |           |
|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------|
| <b>Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business</b> |                                                                              |           |
| Gross realized investment gains:                                                               |                                                                              |           |
| Gross gains on sales and maturities(1)                                                         | \$ 61                                                                        | \$ 38     |
| Private bond prepayment premiums                                                               | 4                                                                            | 1         |
| <b>Total gross realized investment gains</b>                                                   | <b>65</b>                                                                    | <b>39</b> |
| Gross realized investment losses:                                                              |                                                                              |           |
| Net other-than-temporary impairments recognized in earnings(2)                                 | (25)                                                                         | (38)      |
| Gross losses on sales and maturities(1)                                                        | (11)                                                                         | (6)       |
| Credit related losses on sales                                                                 | 0                                                                            | (1)       |

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|                                                                         |       |        |
|-------------------------------------------------------------------------|-------|--------|
| Total gross realized investment losses                                  | (36)  | (45)   |
| Realized investment gains (losses), net Fixed Maturity Securities       | \$ 29 | \$ (6) |
| Net gains (losses) on sales and maturities Fixed Maturity Securities(1) | \$ 50 | \$ 32  |

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- (1) Amounts exclude prepayment premiums, other-than-temporary-impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
- (2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of \$50 million in the first quarter of 2011, included \$1 million of net losses on sales or maturities related to asset-backed securities collateralized by sub-prime mortgages. Net trading gains on sales and maturities of fixed maturity securities of \$32 million in the first quarter of 2010 were primarily due to sales, related to our total return strategy. There was \$1 million of net losses on sales or maturities related to asset-backed securities collateralized by sub-prime mortgages in the first quarter of 2010. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first quarter of 2011 and 2010.

Net realized gains on equity securities were \$59 million in the first quarter of 2011. Net trading gains on sales of equity securities were \$68 million, partially offset by other-than-temporary impairments of \$9 million. Net realized gains on equity securities were \$51 million in the first quarter of 2010. Net trading gains on sales of equity securities were \$54 million, partially offset by other-than-temporary impairments of \$3 million. See below for additional information regarding the other-than-temporary impairments of equity securities in the first quarter of 2011 and 2010.

Net realized gains on commercial mortgage and other loans in the first quarter of 2011 were \$5 million related to a net decrease in the loan loss reserve. Net realized gains on commercial mortgage and other loans in the first quarter of 2010 were \$8 million related to a net decrease in the loan loss reserve. For additional information regarding our loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized losses on derivatives were \$63 million in the first quarter of 2011, compared to net realized gains on derivatives of \$218 million in the first quarter of 2010. Derivative losses in the first quarter of 2011 primarily reflect net derivative losses of \$67 million on currency derivatives used to hedge foreign denominated investments, and net losses of \$6 million on credit derivatives as credit spreads generally tightened. Partially offsetting these losses were net gains of \$9 million on embedded derivatives associated with certain externally-managed investments in the European market. Derivative gains in the first quarter of 2010 primarily reflect net mark-to-market gains of \$133 million on interest rate derivatives used to manage duration. Also contributing to the net derivative gains in 2010 were net derivative gains of \$80 million on currency derivatives used to hedge foreign denominated investments.

There were \$0 million realized gains or losses on other investments in the first quarter of 2011. Net realized gains on other investments were \$3 million in the first quarter of 2010, which included \$4 million of other-than-temporary impairments on joint ventures and partnerships and real estate investments.

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During the first quarter of 2011, we recorded other-than-temporary impairments of \$34 million in earnings, compared to other-than-temporary impairments of \$45 million recorded in earnings in the first quarter of 2010. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

|                                                                                          | <b>Three Months Ended<br/>March 31,<br/>2011      2010<br/>(in millions)</b> |              |
|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------|
| <b>Other-than-temporary impairments recorded in earnings    Closed Block Business(1)</b> |                                                                              |              |
| Public fixed maturity securities                                                         | \$ 23                                                                        | \$ 30        |
| Private fixed maturity securities                                                        | 2                                                                            | 8            |
| Total fixed maturity securities                                                          | 25                                                                           | 38           |
| Equity securities                                                                        | 9                                                                            | 3            |
| Other invested assets(2)                                                                 | 0                                                                            | 4            |
| <b>Total</b>                                                                             | <b>\$ 34</b>                                                                 | <b>\$ 45</b> |

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

(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships.

|                                                                                                                           | <b>Three Months Ended March 31, 2011</b>                                     |                                                                      |                                                |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------|
|                                                                                                                           | <b>Asset-Backed Securities<br/>Collateralized By Sub-Prime<br/>Mortgages</b> | <b>All Other Fixed<br/>Maturity<br/>Securities<br/>(in millions)</b> | <b>Total Fixed<br/>Maturity<br/>Securities</b> |
| <b>Other-than-temporary impairments on fixed maturity securities<br/>recorded in earnings    Closed Block Business(1)</b> |                                                                              |                                                                      |                                                |
| Due to credit events or adverse conditions of the respective issuer(2)                                                    | \$ 18                                                                        | \$ 7                                                                 | \$ 25                                          |
| Due to other accounting guidelines(3)                                                                                     | 0                                                                            | 0                                                                    | 0                                              |
| <b>Total</b>                                                                                                              | <b>\$ 18</b>                                                                 | <b>\$ 7</b>                                                          | <b>\$ 25</b>                                   |

|                                                                                                                           | <b>Three Months Ended March 31, 2010</b>                                     |                                                                      |                                                |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------|
|                                                                                                                           | <b>Asset-Backed Securities<br/>Collateralized By Sub-Prime<br/>Mortgages</b> | <b>All Other Fixed<br/>Maturity<br/>Securities<br/>(in millions)</b> | <b>Total Fixed<br/>Maturity<br/>Securities</b> |
| <b>Other-than-temporary impairments on fixed maturity securities<br/>recorded in earnings    Closed Block Business(1)</b> |                                                                              |                                                                      |                                                |
| Due to credit events or adverse conditions of the respective issuer(2)                                                    | \$ 22                                                                        | \$ 15                                                                | \$ 37                                          |
| Due to other accounting guidelines(3)                                                                                     | 0                                                                            | 1                                                                    | 1                                              |
| <b>Total</b>                                                                                                              | <b>\$ 22</b>                                                                 | <b>\$ 16</b>                                                         | <b>\$ 38</b>                                   |

(1)

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

- (2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

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- (3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in the first quarter of 2011 were concentrated in asset-backed securities collateralized by sub-prime mortgages and the public utilities sectors of our corporate securities that reflect adverse financial conditions of the respective issuers. Other-than-temporary impairments in the first quarter of 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the services and manufacturing sectors of our corporate securities and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Equity security other-than-temporary impairments in the first quarter of 2011 and 2010 were primarily due to circumstances where the decline in value was maintained for one year or greater.

**General Account Investments*****Portfolio Composition***

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other 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.

On February 1, 2011, Prudential Financial completed the acquisition of the Star and Edison Businesses. Our Financial Services Businesses' general account portfolio as of March 31, 2011 includes \$42,671 million of invested assets at carrying value of the Star and Edison Businesses, which consists of \$35,737 million of fixed maturity securities, \$1,935 million of equity securities, \$1,662 million of short-term investments, \$1,648 million of other long-term investments, \$838 million of commercial mortgage and other loans, \$568 million of policy loans, and \$283 million of trading account assets, primarily supporting insurance liabilities. The current portfolio for the Star and Edison Businesses is expected to be repositioned in order to improve the interest rate exposure profile relative to liabilities, diversify credit and risk asset exposures, and reduce unhedged currency positions.

The following tables set forth the composition of the investments of our general account apportioned between the Financial Services Businesses and the Closed Block Business as of the dates indicated.

|                                             | Financial<br>Services<br>Businesses | March 31, 2011                               |            |            |
|---------------------------------------------|-------------------------------------|----------------------------------------------|------------|------------|
|                                             |                                     | Closed Block<br>Business<br>(\$ in millions) | Total      | % of Total |
| Fixed Maturities:                           |                                     |                                              |            |            |
| Public, available for sale, at fair value   | \$ 160,608                          | \$ 30,296                                    | \$ 190,904 | 59.6%      |
| Public, held to maturity, at amortized cost | 3,812                               | 0                                            | 3,812      | 1.2        |
| Private, available for sale, at fair value  | 24,134                              | 14,660                                       | 38,794     | 12.1       |

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|                                                                        |                   |                  |                   |               |
|------------------------------------------------------------------------|-------------------|------------------|-------------------|---------------|
| Private, held to maturity, at amortized cost                           | 1,290             | 0                | 1,290             | 0.4           |
| Trading account assets supporting insurance liabilities, at fair value | 18,314            | 0                | 18,314            | 5.6           |
| Other trading account assets, at fair value                            | 1,229             | 159              | 1,388             | 0.4           |
| Equity securities, available for sale, at fair value                   | 6,273             | 3,824            | 10,097            | 3.2           |
| Commercial mortgage and other loans, at book value                     | 23,023            | 8,701            | 31,724            | 9.9           |
| Policy loans, at outstanding balance                                   | 5,926             | 5,346            | 11,272            | 3.5           |
| Other long-term investments (1)                                        | 4,714             | 1,624            | 6,338             | 2.0           |
| Short-term investments (2)                                             | 5,694             | 924              | 6,618             | 2.1           |
| <b>Total general account investments</b>                               | <b>255,017</b>    | <b>65,534</b>    | <b>320,551</b>    | <b>100.0%</b> |
| Invested assets of other entities and operations (3)                   | 7,759             | 0                | 7,759             |               |
| <b>Total investments</b>                                               | <b>\$ 262,776</b> | <b>\$ 65,534</b> | <b>\$ 328,310</b> |               |

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|                                                                        |                               | December 31, 2010                      |                   |               |
|------------------------------------------------------------------------|-------------------------------|----------------------------------------|-------------------|---------------|
|                                                                        | Financial Services Businesses | Closed Block Business (\$ in millions) | Total             | % of Total    |
| <b>Fixed Maturities:</b>                                               |                               |                                        |                   |               |
| Public, available for sale, at fair value                              | \$ 124,577                    | \$ 30,499                              | \$ 155,076        | 56.3%         |
| Public, held to maturity, at amortized cost                            | 3,940                         | 0                                      | 3,940             | 1.4           |
| Private, available for sale, at fair value                             | 23,108                        | 14,678                                 | 37,786            | 13.7          |
| Private, held to maturity, at amortized cost                           | 1,286                         | 0                                      | 1,286             | 0.5           |
| Trading account assets supporting insurance liabilities, at fair value | 17,771                        | 0                                      | 17,771            | 6.5           |
| Other trading account assets, at fair value                            | 1,220                         | 156                                    | 1,376             | 0.5           |
| Equity securities, available for sale, at fair value                   | 4,135                         | 3,593                                  | 7,728             | 2.8           |
| Commercial mortgage and other loans, at book value                     | 21,901                        | 8,507                                  | 30,408            | 11.0          |
| Policy loans, at outstanding balance                                   | 5,290                         | 5,377                                  | 10,667            | 3.9           |
| Other long-term investments(1)                                         | 2,988                         | 1,582                                  | 4,570             | 1.6           |
| Short-term investments(2)                                              | 3,698                         | 1,164                                  | 4,862             | 1.8           |
| <b>Total general account investments</b>                               | <b>209,914</b>                | <b>65,556</b>                          | <b>275,470</b>    | <b>100.0%</b> |
| <b>Invested assets of other entities and operations(3)</b>             | <b>8,442</b>                  | <b>0</b>                               | <b>8,442</b>      |               |
| <b>Total investments</b>                                               | <b>\$ 218,356</b>             | <b>\$ 65,556</b>                       | <b>\$ 283,912</b> |               |

- (1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see Other Long-Term Investments below.
- (2) Short-term investments have virtually no sub-prime exposure.
- (3) Includes invested assets of brokerage, trading and 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. For additional information regarding these investments, see Invested Assets of Other Entities and Operations below.

As of March 31, 2011, the average duration of our general account investment portfolio attributable to the domestic Financial Services Businesses, including the impact of derivatives, is between 4 and 5 years. The increase in general account investments attributable to the Financial Services Businesses in 2011 was primarily due to the acquisition of the Star and Edison Businesses, and portfolio growth as a result of reinvestment of net investment income partially offset by a net decrease in fair value driven by an increase in risk-free rates. The general account investments attributable to the Closed Block Business remained constant in 2011 primarily due to portfolio growth as a result of reinvestment of net investment income partially offset by net decrease in fair value and net operating outflows. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

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We have substantial insurance operations in Japan, with 49% and 38% of our Financial Services Businesses' general account investments relating to our Japanese insurance operations as of March 31, 2011 and December 31, 2010, respectively. The following table sets forth the composition of the investments of our Japanese insurance operations' general account as of the dates indicated.

|                                                                        | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------------------------------------------|-------------------|----------------------|
|                                                                        | (in millions)     |                      |
| Fixed Maturities:                                                      |                   |                      |
| Public, available for sale, at fair value                              | \$ 95,882         | \$ 60,115            |
| Public, held to maturity, at amortized cost                            | 3,812             | 3,940                |
| Private, available for sale, at fair value                             | 3,944             | 3,304                |
| Private, held to maturity, at amortized cost                           | 1,290             | 1,286                |
| Trading account assets supporting insurance liabilities, at fair value | 1,686             | 1,518                |
| Other trading account assets, at fair value                            | 785               | 702                  |
| Equity securities, available for sale, at fair value                   | 3,637             | 1,612                |
| Commercial mortgage and other loans, at book value                     | 5,131             | 4,202                |
| Policy loans, at outstanding balance                                   | 2,664             | 2,083                |
| Other long-term investments(1)                                         | 3,161             | 1,320                |
| Short-term investments                                                 | 1,928             | 211                  |
| Total Japanese general account investments(2)                          | \$ 123,920        | \$ 80,293            |

- (1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.
- (2) Excludes assets classified as Separate accounts assets on our balance sheet.

As of March 31, 2011, the average duration of our general account investment portfolio related to our Japanese insurance operations, including the impact of derivatives, is approximately 9 years. The increase in general account investments related to our Japanese insurance operations in 2011 is primarily attributable to the impact of the acquisition of the Star and Edison Businesses and portfolio growth as a result of business inflows, partially offset by a net decrease in fair value driven by an increase in risk-free rates.

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, 2011, our Japanese insurance operations had \$32.4 billion, at fair value, of investments denominated in U.S. dollars, including \$3.1 billion that were hedged to yen through third party derivative contracts and \$22.6 billion that support liabilities denominated in U.S. dollars. As of December 31, 2010, our Japanese insurance operations had \$18.2 billion, at fair value, of investments denominated in U.S. dollars, including \$0.7 billion that were hedged to yen through third party derivative contracts and \$10.7 billion that support liabilities denominated in U.S. dollars. The \$14.2 billion increase of U.S. dollar investments at fair value from December 31, 2010 is primarily driven by \$11.3 billion from the Star and Edison Businesses' U.S. dollar denominated assets supporting U.S. dollar liabilities. For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, Results of Operations for Financial Services Businesses by Segment International Insurance Division.

**Table of Contents****Investment Results**

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

|                                                         | Three Months Ended March 31, 2011 |          |                          |                            |             |          |
|---------------------------------------------------------|-----------------------------------|----------|--------------------------|----------------------------|-------------|----------|
|                                                         | Financial Services<br>Businesses  |          | Closed Block<br>Business |                            | Combined    |          |
|                                                         | Yield(1)(2)                       | Amount   | Yield(1)                 | Amount<br>(\$ in millions) | Yield(1)(2) | Amount   |
| Fixed maturities                                        | 4.02%                             | \$ 1,598 | 5.56%                    | \$ 564                     | 4.34%       | \$ 2,162 |
| Trading account assets supporting insurance liabilities | 4.28                              | 192      | 0.00                     | 0                          | 4.28        | 192      |
| Equity securities                                       | 5.04                              | 54       | 2.62                     | 19                         | 4.06        | 73       |
| Commercial mortgage and other loans                     | 5.78                              | 320      | 6.42                     | 137                        | 5.95        | 457      |
| Policy loans                                            | 4.69                              | 64       | 6.00                     | 80                         | 5.33        | 144      |
| Short-term investments and cash equivalents             | 0.37                              | 11       | 0.88                     | 1                          | 0.39        | 12       |
| Other investments                                       | 5.48                              | 65       | 10.30                    | 45                         | 6.77        | 110      |
| Gross investment income before investment expenses      | 4.10                              | 2,304    | 5.70                     | 846                        | 4.43        | 3,150    |
| Investment expenses                                     | (0.11)                            | (53)     | (0.24)                   | (36)                       | (0.14)      | (89)     |
| Investment income after investment expenses             | 3.99%                             | 2,251    | 5.46%                    | 810                        | 4.29%       | 3,061    |
| Investment results of other entities and operations(3)  |                                   | 57       |                          | 0                          |             | 57       |
| Total investment income                                 |                                   | \$ 2,308 |                          | \$ 810                     |             | \$ 3,118 |

|                                                         | Three Months Ended March 31, 2010 |          |                          |                            |          |          |
|---------------------------------------------------------|-----------------------------------|----------|--------------------------|----------------------------|----------|----------|
|                                                         | Financial Services<br>Businesses  |          | Closed Block<br>Business |                            | Combined |          |
|                                                         | Yield(1)                          | Amount   | Yield(1)                 | Amount<br>(\$ in millions) | Yield(1) | Amount   |
| Fixed maturities                                        | 4.27%                             | \$ 1,437 | 5.86%                    | \$ 587                     | 4.63%    | \$ 2,024 |
| Trading account assets supporting insurance liabilities | 4.59                              | 187      | 0.00                     | 0                          | 4.59     | 187      |
| Equity securities                                       | 6.31                              | 53       | 2.59                     | 17                         | 4.67     | 70       |
| Commercial mortgage and other loans                     | 5.70                              | 299      | 6.43                     | 132                        | 5.91     | 431      |
| Policy loans                                            | 4.77                              | 57       | 6.34                     | 85                         | 5.60     | 142      |
| Short-term investments and cash equivalents             | 0.26                              | 8        | 0.42                     | 1                          | 0.26     | 9        |
| Other investments                                       | 3.77                              | 40       | 2.90                     | 12                         | 3.52     | 52       |
| Gross investment income before investment expenses      | 4.24                              | 2,081    | 5.69                     | 834                        | 4.57     | 2,915    |
| Investment expenses                                     | (0.12)                            | (50)     | (0.23)                   | (34)                       | (0.15)   | (84)     |
| Investment income after investment expenses             | 4.12%                             | 2,031    | 5.46%                    | 800                        | 4.42%    | 2,831    |
| Investment results of other entities and operations(3)  |                                   | 41       |                          | 0                          |          | 41       |
| Total investment income                                 |                                   | \$ 2,072 |                          | \$ 800                     |          | \$ 2,872 |

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- (1) Yields are annualized, for interim periods, and are 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

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cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior periods yields are presented on a basis consistent with the current period presentation.

- (2) Yields are weighted for one month of income and assets related to the Star and Edison Businesses.
- (3) Includes investment income of securities brokerage, securities trading, banking operations, real estate and relocation services, and asset management operations.

See below for a discussion of the change in the Financial Services Businesses yields. There was no change in the net investment income yield attributable to the Closed Block Business for the three months ended March 31, 2011 compared to the three months ended March 31, 2010, as investments in joint ventures and limited partnerships, driven by appreciation and gains on the underlying assets, offset the impact of lower interest rates on floating rate investments due to rate resets and lower fixed income reinvestment rates.

The following table sets forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of the Financial Services Businesses general account, excluding the Japanese insurance operations portion of the general account which is presented separately below, for the periods indicated.

|                                                         | Three Months<br>Ended March 31, 2011 |          | Three Months<br>Ended March 31, 2010 |          |
|---------------------------------------------------------|--------------------------------------|----------|--------------------------------------|----------|
|                                                         | Yield(1)                             | Amount   | Yield(1)                             | Amount   |
|                                                         | (\$ in millions)                     |          |                                      |          |
| Fixed maturities                                        | 5.38%                                | \$ 1,057 | 5.46%                                | \$ 1,032 |
| Trading account assets supporting insurance liabilities | 4.42                                 | 181      | 4.76                                 | 179      |
| Equity securities                                       | 8.12                                 | 41       | 9.36                                 | 42       |
| Commercial mortgage and other loans                     | 6.16                                 | 272      | 5.95                                 | 257      |
| Policy loans                                            | 5.60                                 | 45       | 5.38                                 | 41       |
| Short-term investments and cash equivalents             | 0.31                                 | 7        | 0.25                                 | 7        |
| Other investments                                       | 3.75                                 | 19       | 1.72                                 | 8        |
| Gross investment income before investment expenses      | 5.04                                 | 1,622    | 4.99                                 | 1,566    |
| Investment expenses                                     | (0.12)                               | (27)     | (0.11)                               | (24)     |
| Investment income after investment expenses             | 4.92%                                | 1,595    | 4.88%                                | 1,542    |
| Investment results of other entities and operations(2)  |                                      | 57       |                                      | 41       |
| Total investment income                                 |                                      | \$ 1,652 |                                      | \$ 1,583 |

- (1) Yields are annualized, for interim periods, and are 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 fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. 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 increase in net investment income yield attributable to the Financial Services Businesses general account excluding the Japanese insurance operations portfolio for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 was primarily due to an increase in other investment yields driven by favorable joint venture and limited partnership earnings driven by appreciation on the underlying assets partially offset by a decrease in fixed maturity yields as a result of lower interest rates on floating rate investments from rate resets and lower fixed maturity reinvestment rates.



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The following table sets forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of our Japanese insurance operations – general account for the periods indicated.

|                                                         | <b>Three Months<br/>Ended March 31, 2011</b> |                                    | <b>Three Months<br/>Ended March 31, 2010</b> |               |
|---------------------------------------------------------|----------------------------------------------|------------------------------------|----------------------------------------------|---------------|
|                                                         | <b>Yield(1)(2)</b>                           | <b>Amount<br/>(\$ in millions)</b> | <b>Yield(1)</b>                              | <b>Amount</b> |
| Fixed maturities                                        | 2.70%                                        | \$ 541                             | 2.75%                                        | \$ 405        |
| Trading account assets supporting insurance liabilities | 2.80                                         | 11                                 | 2.66                                         | 8             |
| Equity securities                                       | 2.29                                         | 13                                 | 2.76                                         | 11            |
| Commercial mortgage and other loans                     | 4.27                                         | 48                                 | 4.56                                         | 42            |
| Policy loans                                            | 3.40                                         | 19                                 | 3.74                                         | 16            |
| Short-term investments and cash equivalents             | 0.59                                         | 4                                  | 0.33                                         | 1             |
| Other investments                                       | 6.84                                         | 46                                 | 5.50                                         | 32            |
| Gross investment income before investment expenses      | 2.83                                         | 682                                | 2.91                                         | 515           |
| Investment expenses                                     | (0.11)                                       | (26)                               | (0.14)                                       | (26)          |
| Total investment income                                 | 2.72%                                        | \$ 656                             | 2.77%                                        | \$ 489        |

- (1) Yields are annualized, for interim periods, and are 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 fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior periods yields are presented on a basis consistent with the current period presentation.
- (2) Yields are weighted for one month of income and assets related to the Star and Edison Businesses.

The decrease in the net investment income yield on the Japanese insurance portfolio for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 is primarily attributable to the impact of the acquisition of the Star and Edison Businesses and lower fixed maturity reinvestment rates.

The U.S. dollar denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable Japanese fixed maturities. The average amortized cost of U.S. dollar denominated fixed maturities that are not hedged to yen through third party derivative contracts for the three months ended March 31, 2011 and 2010, was approximately \$17.1 billion and \$10.7 billion, respectively. For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, Results of Operations for Financial Services Businesses by Segment – International Insurance Division.

**Fixed Maturity Securities****Investment Mix**

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.

We manage our public portfolio to a risk profile directed or overseen by the Asset Liability Management and Risk Management groups and to a profile that also reflects the local market environments impacting both our domestic and international insurance portfolios. The investment objectives for fixed maturity securities are consistent with those described above. The total return that we earn on the portfolio will be reflected both as investment income and also as realized gains or losses on investments.

We use our private placement and asset-backed portfolios to enhance the diversification and yield of our overall fixed maturity portfolio. Within our domestic portfolios, we maintain a private fixed income portfolio that

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is larger than the industry average as a percentage of total fixed income holdings. Over the last several years, our investment staff has originated the majority of our annual private placement originations through direct borrower relationships. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

As of March 31, 2011, our consolidated direct exposure to the sovereign and local government debt of Portugal, Ireland, Italy, Greece and Spain was in aggregate approximately \$588 million, based on amortized cost, substantially all within the Financial Services Businesses and primarily representing Italian government securities owned by Prudential's Italian insurance operations.

As of March 31, 2011, our consolidated direct investment exposure in Turkey, United Arab Emirates, Israel, Saudi Arabia, Bahrain, Qatar, Kuwait, and Tunisia was in aggregate approximately \$480 million, based on amortized cost, primarily within the Financial Services Businesses, and included approximately \$138 million representing investment exposure in Israel. We had no direct investment exposure in Egypt or Libya as of March 31, 2011.

*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.

**Fixed Maturity Securities Financial Services Businesses**

| Industry(1)                 | Amortized<br>Cost | March 31, 2011                  |                                  | Fair<br>Value<br>(in millions) | Amortized<br>Cost | December 31, 2010               |                                  | Fair<br>Value |
|-----------------------------|-------------------|---------------------------------|----------------------------------|--------------------------------|-------------------|---------------------------------|----------------------------------|---------------|
|                             |                   | Gross<br>Unrealized<br>Gains(2) | Gross<br>Unrealized<br>Losses(2) |                                |                   | Gross<br>Unrealized<br>Gains(2) | Gross<br>Unrealized<br>Losses(2) |               |
| Corporate securities:       |                   |                                 |                                  |                                |                   |                                 |                                  |               |
| Manufacturing               | \$ 25,146         | \$ 1,431                        | \$ 607                           | \$ 25,970                      | \$ 21,590         | \$ 1,538                        | \$ 539                           | \$ 22,589     |
| Utilities                   | 13,953            | 785                             | 205                              | 14,533                         | 11,153            | 851                             | 179                              | 11,825        |
| Finance                     | 21,082            | 491                             | 334                              | 21,239                         | 11,213            | 385                             | 331                              | 11,267        |
| Services                    | 11,452            | 613                             | 356                              | 11,709                         | 10,170            | 612                             | 333                              | 10,449        |
| Energy                      | 6,619             | 332                             | 189                              | 6,762                          | 5,356             | 364                             | 168                              | 5,552         |
| Transportation              | 4,863             | 217                             | 66                               | 5,014                          | 3,625             | 240                             | 62                               | 3,803         |
| Retail and wholesale        | 5,076             | 194                             | 154                              | 5,116                          | 4,110             | 214                             | 138                              | 4,186         |
| Other                       | 1,676             | 32                              | 71                               | 1,637                          | 1,359             | 62                              | 62                               | 1,359         |
|                             |                   |                                 |                                  |                                |                   |                                 |                                  |               |
| Total corporate securities  | 89,867            | 4,095                           | 1,982                            | 91,980                         | 68,576            | 4,266                           | 1,812                            | 71,030        |
| Foreign government(3)       | 61,919            | 2,336                           | 173                              | 64,082                         | 48,016            | 2,915                           | 86                               | 50,845        |
| Residential mortgage-backed | 7,251             | 341                             | 55                               | 7,537                          | 7,504             | 397                             | 51                               | 7,850         |
| Asset-backed securities(4)  | 9,480             | 160                             | 834                              | 8,806                          | 8,790             | 168                             | 969                              | 7,989         |
| Commercial mortgage-backed  | 9,576             | 587                             | 57                               | 10,106                         | 8,142             | 592                             | 63                               | 8,671         |
| U.S. government             | 5,613             | 407                             | 160                              | 5,860                          | 4,807             | 464                             | 67                               | 5,204         |
| State & municipal(5)        | 1,701             | 19                              | 66                               | 1,654                          | 1,601             | 24                              | 52                               | 1,573         |

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|             |            |          |          |            |            |          |          |            |
|-------------|------------|----------|----------|------------|------------|----------|----------|------------|
| Total(6)(7) | \$ 185,407 | \$ 7,945 | \$ 3,327 | \$ 190,025 | \$ 147,436 | \$ 8,826 | \$ 3,100 | \$ 153,162 |
|-------------|------------|----------|----------|------------|------------|----------|----------|------------|

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

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- (2) Includes \$255 million of gross unrealized gains and \$74 million of gross unrealized losses as of March 31, 2011, compared to \$319 million of gross unrealized gains and \$68 million of gross unrealized losses as of December 31, 2010 on securities classified as held to maturity.
- (3) As of March 31, 2011 and December 31, 2010, based on amortized cost, 84% and 83%, respectively, represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 7% and 8%, respectively, of the balance.
- (4) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
- (5) Includes securities related to the Build America Bonds program.
- (6) Excluded from the above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see Invested Assets of Other Entities and Operations below.
- (7) The table above excludes fixed maturity securities classified as trading. See Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets for additional information.

The change in unrealized gains and losses from December 31, 2010, to March 31, 2011, was primarily due to a net increase in interest rates, mainly the result of risk-free rates.

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.

### Fixed Maturity Securities Closed Block Business

| Industry(1)                 | March 31, 2011    |                              |                               |               |                   | December 31, 2010            |                               |               |
|-----------------------------|-------------------|------------------------------|-------------------------------|---------------|-------------------|------------------------------|-------------------------------|---------------|
|                             | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|                             |                   | (in millions)                |                               |               |                   |                              |                               |               |
| Corporate Securities:       |                   |                              |                               |               |                   |                              |                               |               |
| Manufacturing               | \$ 7,870          | \$ 701                       | \$ 51                         | \$ 8,520      | \$ 7,940          | \$ 754                       | \$ 66                         | \$ 8,628      |
| Utilities                   | 5,417             | 475                          | 34                            | 5,858         | 5,566             | 510                          | 42                            | 6,034         |
| Services                    | 4,526             | 377                          | 27                            | 4,876         | 4,562             | 377                          | 35                            | 4,904         |
| Finance                     | 2,894             | 141                          | 35                            | 3,000         | 2,723             | 125                          | 53                            | 2,795         |
| Energy                      | 1,772             | 168                          | 6                             | 1,934         | 1,887             | 184                          | 6                             | 2,065         |
| Retail and wholesale        | 1,612             | 156                          | 16                            | 1,752         | 1,641             | 166                          | 21                            | 1,786         |
| Transportation              | 1,378             | 105                          | 10                            | 1,473         | 1,349             | 102                          | 19                            | 1,432         |
| Other                       | 30                | 2                            | 0                             | 32            | 29                | 2                            | 0                             | 31            |
|                             |                   |                              |                               |               |                   |                              |                               |               |
| Total corporate securities  | 25,499            | 2,125                        | 179                           | 27,445        | 25,697            | 2,220                        | 242                           | 27,675        |
| Asset-backed securities(2)  | 4,684             | 65                           | 633                           | 4,116         | 4,570             | 60                           | 701                           | 3,929         |
| Commercial mortgage-backed  | 3,578             | 164                          | 3                             | 3,739         | 3,615             | 170                          | 6                             | 3,779         |
| U.S. government             | 6,339             | 136                          | 295                           | 6,180         | 6,066             | 197                          | 228                           | 6,035         |
| Residential mortgage-backed | 2,075             | 122                          | 15                            | 2,182         | 2,311             | 129                          | 15                            | 2,425         |
| Foreign government(3)       | 579               | 83                           | 8                             | 654           | 596               | 90                           | 9                             | 677           |
| State & municipal           | 638               | 14                           | 12                            | 640           | 651               | 19                           | 13                            | 657           |
|                             |                   |                              |                               |               |                   |                              |                               |               |
| Total(4)                    | \$ 43,392         | \$ 2,709                     | \$ 1,145                      | \$ 44,956     | \$ 43,506         | \$ 2,885                     | \$ 1,214                      | \$ 45,177     |

- (1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
- (2) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.



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- (3) As of March 31, 2011 and December 31, 2010, based on amortized cost, no individual foreign country represented more than 8% of the balance.  
 (4) The table above excludes fixed maturity securities classified as trading. See Other Trading Account Assets for additional information.

The change in unrealized gains and losses from December 31, 2010, to March 31, 2011, was primarily due to a net increase in interest rates, mainly the result of risk-free rates.

### *Asset-Backed Securities*

Included within asset-backed securities attributable to the Financial Services Businesses are securities collateralized by sub-prime mortgages. While there is no market standard definition, we define sub-prime mortgages as residential mortgages that are originated to weaker quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios, or limited documentation. The significant deterioration of the U.S. housing market, high interest rate resets, higher unemployment levels, and relaxed underwriting standards for some originators of sub-prime mortgages have led to higher delinquency rates, particularly for those mortgages issued in 2006 and 2007. Recently there has been significant attention given to potential deficiencies in lenders' foreclosure documentation, causing delays in the foreclosure process. Many lenders have indicated that the issues are administrative and they do not expect significant delays in their foreclosure proceedings. From the perspective of an investor in securities backed by sub-prime collateral, any significant delays in foreclosure proceedings could result in increased servicing costs which could negatively affect the value of the impacted securities. Separately, as an investor in sub-prime securities, we are evaluating our legal options with respect to potential remedies arising from any potential deficiencies related to the original lending and securitization practices. The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

**Table of Contents****Asset-Backed Securities at Amortized Cost Financial Services Businesses**

| Vintage                                               | March 31, 2011<br>Lowest Rating Agency Rating |          |        |                      |                 | Total<br>Amortized<br>Cost | Total<br>December<br>31,<br>2010 |  |
|-------------------------------------------------------|-----------------------------------------------|----------|--------|----------------------|-----------------|----------------------------|----------------------------------|--|
|                                                       | AAA                                           | AA       | A      | BBB<br>(in millions) | BB and<br>below |                            |                                  |  |
| Collateralized by sub-prime mortgages:                |                                               |          |        |                      |                 |                            |                                  |  |
| Enhanced short-term portfolio(1):                     |                                               |          |        |                      |                 |                            |                                  |  |
| 2011 2008                                             | \$ 0                                          | \$ 0     | \$ 0   | \$ 0                 | \$ 0            | \$ 0                       | \$ 0                             |  |
| 2007                                                  | 1                                             | 0        | 3      | 5                    | 307             | 316                        | 338                              |  |
| 2006                                                  | 1                                             | 7        | 10     | 30                   | 308             | 356                        | 424                              |  |
| 2005                                                  | 0                                             | 0        | 0      | 0                    | 9               | 9                          | 9                                |  |
| 2004 & Prior                                          | 0                                             | 0        | 0      | 0                    | 0               | 0                          | 0                                |  |
|                                                       |                                               |          |        |                      |                 |                            |                                  |  |
| Total enhanced short-term portfolio                   | 2                                             | 7        | 13     | 35                   | 624             | 681                        | 771                              |  |
| All other portfolios:                                 |                                               |          |        |                      |                 |                            |                                  |  |
| 2011 2008                                             | 0                                             | 0        | 0      | 0                    | 0               | 0                          | 0                                |  |
| 2007                                                  | 3                                             | 0        | 0      | 0                    | 229             | 232                        | 266                              |  |
| 2006                                                  | 10                                            | 71       | 35     | 19                   | 829             | 964                        | 1,066                            |  |
| 2005                                                  | 1                                             | 20       | 24     | 34                   | 295             | 374                        | 436                              |  |
| 2004 & Prior                                          | 22                                            | 45       | 69     | 59                   | 648             | 843                        | 885                              |  |
|                                                       |                                               |          |        |                      |                 |                            |                                  |  |
| Total all other portfolios                            | 36                                            | 136      | 128    | 112                  | 2,001           | 2,413                      | 2,653                            |  |
|                                                       |                                               |          |        |                      |                 |                            |                                  |  |
| Total collateralized by sub-prime mortgages(2)        | 38                                            | 143      | 141    | 147                  | 2,625           | 3,094                      | 3,424                            |  |
| Other asset-backed securities:                        |                                               |          |        |                      |                 |                            |                                  |  |
| Externally-managed investments in the European market | 0                                             | 0        | 0      | 550                  | 0               | 550                        | 588                              |  |
| Collateralized by auto loans                          | 912                                           | 2        | 6      | 6                    | 0               | 926                        | 931                              |  |
| Collateralized by credit cards                        | 610                                           | 0        | 8      | 405                  | 3               | 1,026                      | 1,014                            |  |
| Collateralized by non-sub-prime mortgages             | 1,704                                         | 123      | 22     | 37                   | 22              | 1,908                      | 1,373                            |  |
| Other asset-backed securities(3)                      | 641                                           | 887      | 133    | 109                  | 206             | 1,976                      | 1,460                            |  |
|                                                       |                                               |          |        |                      |                 |                            |                                  |  |
| Total asset-backed securities(4)                      | \$ 3,905                                      | \$ 1,155 | \$ 310 | \$ 1,254             | \$ 2,856        | \$ 9,480                   | \$ 8,790                         |  |

**Table of Contents****Asset-Backed Securities at Fair Value Financial Services Businesses**

| Vintage                                               | March 31, 2011              |          |        |                      |                 | Total<br>Fair<br>Value | Total<br>December<br>31,<br>2010 |
|-------------------------------------------------------|-----------------------------|----------|--------|----------------------|-----------------|------------------------|----------------------------------|
|                                                       | Lowest Rating Agency Rating |          |        |                      |                 |                        |                                  |
|                                                       | AAA                         | AA       | A      | BBB<br>(in millions) | BB and<br>below |                        |                                  |
| Collateralized by sub-prime mortgages:                |                             |          |        |                      |                 |                        |                                  |
| Enhanced short-term portfolio(1):                     |                             |          |        |                      |                 |                        |                                  |
| 2011 2008                                             | \$ 0                        | \$ 0     | \$ 0   | \$ 0                 | \$ 0            | \$ 0                   | \$ 0                             |
| 2007                                                  | 1                           | 0        | 2      | 5                    | 228             | 236                    | 255                              |
| 2006                                                  | 1                           | 6        | 10     | 30                   | 252             | 299                    | 360                              |
| 2005                                                  | 0                           | 0        | 0      | 0                    | 8               | 8                      | 8                                |
| 2004 & Prior                                          | 0                           | 0        | 0      | 0                    | 0               | 0                      | 0                                |
|                                                       |                             |          |        |                      |                 |                        |                                  |
| Total enhanced short-term portfolio                   | 2                           | 6        | 12     | 35                   | 488             | 543                    | 623                              |
| All other portfolios:                                 |                             |          |        |                      |                 |                        |                                  |
| 2011 2008                                             | 0                           | 0        | 0      | 0                    | 0               | 0                      | 0                                |
| 2007                                                  | 3                           | 0        | 0      | 0                    | 136             | 139                    | 158                              |
| 2006                                                  | 7                           | 61       | 25     | 17                   | 595             | 705                    | 764                              |
| 2005                                                  | 1                           | 19       | 22     | 26                   | 230             | 298                    | 338                              |
| 2004 & Prior                                          | 21                          | 38       | 60     | 48                   | 490             | 657                    | 671                              |
|                                                       |                             |          |        |                      |                 |                        |                                  |
| Total all other portfolios                            | 32                          | 118      | 107    | 91                   | 1,451           | 1,799                  | 1,931                            |
|                                                       |                             |          |        |                      |                 |                        |                                  |
| Total collateralized by sub-prime mortgages           | 34                          | 124      | 119    | 126                  | 1,939           | 2,342                  | 2,554                            |
| Other asset-backed securities:                        |                             |          |        |                      |                 |                        |                                  |
| Externally-managed investments in the European market | 0                           | 0        | 0      | 574                  | 0               | 574                    | 619                              |
| Collateralized by auto loans                          | 914                         | 2        | 6      | 6                    | 0               | 928                    | 933                              |
| Collateralized by credit cards                        | 644                         | 0        | 8      | 396                  | 3               | 1,051                  | 1,039                            |
| Collateralized by non-sub-prime mortgages             | 1,747                       | 124      | 22     | 34                   | 21              | 1,948                  | 1,421                            |
| Other asset-backed securities(3)                      | 647                         | 884      | 133    | 110                  | 189             | 1,963                  | 1,423                            |
|                                                       |                             |          |        |                      |                 |                        |                                  |
| Total asset-backed securities(4)                      | \$ 3,986                    | \$ 1,134 | \$ 288 | \$ 1,246             | \$ 2,152        | \$ 8,806               | \$ 7,989                         |

- (1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, commercial paper issuances and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
- (2) Included within the \$3.1 billion of asset-backed securities collateralized by sub-prime mortgages as of March 31, 2011 are \$173 million of securities collateralized by second-lien exposures.
- (3) As of March 31, 2011, includes collateralized debt obligations with amortized cost of \$159 million and fair value of \$170 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by education loans, equipment leases, franchises, timeshares and aircraft.
- (4) Excluded from the tables above are asset-backed securities held outside the general account in other entities and operations. For additional information regarding asset-backed securities held outside the general account, see *Invested Assets of Other Entities and Operations* below. Also excluded from the table above are asset-backed securities classified as trading and carried at fair value. See *Trading Account Assets Supporting Insurance Liabilities* and *Other Trading Account Assets* for additional information regarding these securities.

The tables above provide ratings as assigned by nationally recognized rating agencies as of March 31, 2011, including Standard & Poor's, Moody's, and Fitch. In making our investment decisions, rather than relying solely on the rating agencies' evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit's independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.



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On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses decreased from \$3.424 billion as of December 31, 2010 to \$3.094 billion as of March 31, 2011, primarily reflecting sales, principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses were \$762 million as of March 31, 2011 and \$882 million as of December 31, 2010. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see

Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

The weighted average estimated subordination percentage of our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses, excluding those supported by guarantees from monoline bond insurers, was 30% as of March 31, 2011. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of March 31, 2011, based on amortized cost, approximately 64% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 41% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the \$3.094 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses as of March 31, 2011 were \$703 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

Included within asset-backed securities attributable to the Closed Block Business are securities collateralized by sub-prime mortgages, as defined above. The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

**Table of Contents****Asset-Backed Securities at Amortized Cost Closed Block Business**

| Vintage                                               | March 31, 2011<br>Lowest Rating Agency Rating |        |        |                      |                 | Total<br>Amortized<br>Cost | Total<br>December 31,<br>2010 |
|-------------------------------------------------------|-----------------------------------------------|--------|--------|----------------------|-----------------|----------------------------|-------------------------------|
|                                                       | AAA                                           | AA     | A      | BBB<br>(in millions) | BB and<br>below |                            |                               |
| Collateralized by sub-prime mortgages:                |                                               |        |        |                      |                 |                            |                               |
| Enhanced short-term portfolio(1):                     |                                               |        |        |                      |                 |                            |                               |
| 2011 2008                                             | \$ 0                                          | \$ 0   | \$ 0   | \$ 0                 | \$ 0            | \$ 0                       | \$ 0                          |
| 2007                                                  | 4                                             | 0      | 3      | 5                    | 229             | 241                        | 258                           |
| 2006                                                  | 1                                             | 10     | 12     | 36                   | 269             | 328                        | 390                           |
| 2005                                                  | 1                                             | 1      | 0      | 0                    | 9               | 11                         | 12                            |
| 2004 & Prior                                          | 0                                             | 0      | 0      | 0                    | 0               | 0                          | 0                             |
| Total enhanced short-term portfolio                   | 6                                             | 11     | 15     | 41                   | 507             | 580                        | 660                           |
| All other portfolios:                                 |                                               |        |        |                      |                 |                            |                               |
| 2011 2008                                             | 0                                             | 0      | 0      | 0                    | 0               | 0                          | 0                             |
| 2007                                                  | 5                                             | 0      | 19     | 7                    | 203             | 234                        | 256                           |
| 2006                                                  | 96                                            | 0      | 0      | 0                    | 740             | 836                        | 868                           |
| 2005                                                  | 12                                            | 91     | 60     | 15                   | 132             | 310                        | 343                           |
| 2004 & Prior                                          | 2                                             | 56     | 52     | 81                   | 421             | 612                        | 630                           |
| Total all other portfolios                            | 115                                           | 147    | 131    | 103                  | 1,496           | 1,992                      | 2,097                         |
| Total collateralized by sub-prime mortgages(2)        | 121                                           | 158    | 146    | 144                  | 2,003           | 2,572                      | 2,757                         |
| Other asset-backed securities:                        |                                               |        |        |                      |                 |                            |                               |
| Collateralized by credit cards                        | 426                                           | 0      | 36     | 194                  | 2               | 658                        | 642                           |
| Collateralized by auto loans                          | 488                                           | 0      | 0      | 0                    | 0               | 488                        | 396                           |
| Externally-managed investments in the European market | 0                                             | 0      | 0      | 221                  | 0               | 221                        | 212                           |
| Collateralized by education loans                     | 300                                           | 20     | 0      | 0                    | 0               | 320                        | 201                           |
| Other asset-backed securities(3)                      | 171                                           | 150    | 52     | 3                    | 49              | 425                        | 362                           |
| Total asset-backed securities                         | \$ 1,506                                      | \$ 328 | \$ 234 | \$ 562               | \$ 2,054        | \$ 4,684                   | \$ 4,570                      |

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### Asset-Backed Securities at Fair Value Closed Block Business

| Vintage                                               | March 31, 2011<br>Lowest Rating Agency Rating |        |        |                      |              | Total Fair Value | Total<br>December<br>31,<br>2010 |
|-------------------------------------------------------|-----------------------------------------------|--------|--------|----------------------|--------------|------------------|----------------------------------|
|                                                       | AAA                                           | AA     | A      | BBB<br>(in millions) | BB and below |                  |                                  |
| Collateralized by sub-prime mortgages:                |                                               |        |        |                      |              |                  |                                  |
| Enhanced short-term portfolio(1):                     |                                               |        |        |                      |              |                  |                                  |
| 2011 2008                                             | \$ 0                                          | \$ 0   | \$ 0   | \$ 0                 | \$ 0         | \$ 0             | \$ 0                             |
| 2007                                                  | 4                                             | 0      | 3      | 5                    | 175          | 187              | 202                              |
| 2006                                                  | 1                                             | 9      | 12     | 35                   | 225          | 282              | 339                              |
| 2005                                                  | 1                                             | 1      | 0      | 0                    | 8            | 10               | 10                               |
| 2004 & Prior                                          | 0                                             | 0      | 0      | 0                    | 0            | 0                | 0                                |
| Total enhanced short-term portfolio                   | 6                                             | 10     | 15     | 40                   | 408          | 479              | 551                              |
| All other portfolios:                                 |                                               |        |        |                      |              |                  |                                  |
| 2011 2008                                             | 0                                             | 0      | 0      | 0                    | 0            | 0                | 0                                |
| 2007                                                  | 4                                             | 0      | 15     | 5                    | 130          | 154              | 169                              |
| 2006                                                  | 86                                            | 0      | 0      | 0                    | 491          | 577              | 585                              |
| 2005                                                  | 11                                            | 85     | 49     | 12                   | 100          | 257              | 276                              |
| 2004 & Prior                                          | 2                                             | 50     | 43     | 69                   | 336          | 500              | 509                              |
| Total all other portfolios                            | 103                                           | 135    | 107    | 86                   | 1,057        | 1,488            | 1,539                            |
| Total collateralized by sub-prime mortgages           | 109                                           | 145    | 122    | 126                  | 1,465        | 1,967            | 2,090                            |
| Other asset-backed securities:                        |                                               |        |        |                      |              |                  |                                  |
| Collateralized by credit cards                        | 437                                           | 0      | 36     | 194                  | 2            | 669              | 649                              |
| Collateralized by auto loans                          | 489                                           | 0      | 0      | 0                    | 0            | 489              | 397                              |
| Externally-managed investments in the European market | 0                                             | 0      | 0      | 250                  | 0            | 250              | 243                              |
| Collateralized by education loans                     | 303                                           | 14     | 0      | 0                    | 0            | 317              | 196                              |
| Other asset-backed securities(3)                      | 174                                           | 152    | 53     | 2                    | 43           | 424              | 354                              |
| Total asset-backed securities(4)                      | \$ 1,512                                      | \$ 311 | \$ 211 | \$ 572               | \$ 1,510     | \$ 4,116         | \$ 3,929                         |

- (1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
- (2) Included within the \$2.6 billion of asset-backed securities collateralized by sub-prime mortgages as of March 31, 2011 are \$23 million of securities collateralized by second-lien exposures.
- (3) As of March 31, 2011, includes collateralized debt obligations with amortized cost of \$34 million and fair value of \$35 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by franchises, equipment leases, time shares, manufacturing and aircraft.
- (4) Excluded from the table above are asset-backed securities classified as trading and carried at fair value. For additional information see Other Trading Account Assets.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business decreased from \$2.757 billion as of December 31, 2010 to \$2.572 billion as of March 31, 2011, primarily reflecting sales, principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business were \$612 million as of March 31, 2011 and \$673 million as of December 31, 2010. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see

Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 13 to the Unaudited Interim Consolidated Financial Statements.



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The weighted average estimated subordination percentage of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business, excluding those supported by guarantees from monoline bond insurers, was 31% as of March 31, 2011. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of March 31, 2011, based on amortized cost, approximately 69% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 43% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the \$2.572 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business as of March 31, 2011 were \$699 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

*Residential Mortgage-Backed Securities*

The following table sets forth the amortized cost of our residential mortgage-backed securities attributable to the Financial Services Businesses and Closed Block Business as of March 31, 2011.

**Residential Mortgage-Backed Securities at Amortized Cost**

|                                              | March 31, 2011                |            |                       |            |
|----------------------------------------------|-------------------------------|------------|-----------------------|------------|
|                                              | Financial Services Businesses |            | Closed Block Business |            |
|                                              | Amortized Cost                | % of Total | Amortized Cost        | % of Total |
|                                              | (\$ in millions)              |            |                       |            |
| By security type:                            |                               |            |                       |            |
| Agency pass-through securities(1)            | \$ 7,193                      | 99.2%      | \$ 1,830              | 88.2%      |
| Collateralized mortgage obligations(2)(3)    | 58                            | 0.8        | 245                   | 11.8       |
| Total residential mortgage-backed securities | \$ 7,251                      | 100.0%     | \$ 2,075              | 100.0%     |
| Portion rated Aaa/AAA (4)                    | \$ 7,161                      | 98.8%      | \$ 1,847              | 89.0%      |

|                                              | December 31, 2010             |            |                       |            |
|----------------------------------------------|-------------------------------|------------|-----------------------|------------|
|                                              | Financial Services Businesses |            | Closed Block Business |            |
|                                              | Amortized Cost                | % of Total | Amortized Cost        | % of Total |
|                                              | (\$ in millions)              |            |                       |            |
| By security type:                            |                               |            |                       |            |
| Agency pass-through securities(1)            | \$ 7,442                      | 99.2%      | \$ 2,055              | 88.9%      |
| Collateralized mortgage obligations(2)(3)    | 62                            | 0.8        | 256                   | 11.1       |
| Total residential mortgage-backed securities | \$ 7,504                      | 100.0%     | \$ 2,311              | 100.0%     |
| Portion rated Aaa/AAA(4)                     | \$ 7,413                      | 98.8%      | \$ 2,074              | 89.7%      |

- (1) As of March 31, 2011, of these securities, for the Financial Services Businesses, \$5.616 billion are supported by U.S. government and \$1.576 billion are supported by foreign government. As of December 31, 2010, of these securities, for the Financial Services Businesses, \$5.954 billion were supported by the U.S. government and \$1.488 billion were supported by foreign government. For the Closed Block Business all of the securities are supported by the U.S. government as of March 31, 2011 and December 31, 2010.
- (2) Includes alternative residential mortgage loans of \$44 million and \$46 million in the Financial Services Businesses, and \$104 million and \$108 million in the Closed Block Business, for March 31, 2011 and December 31, 2010, respectively.

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- (3) As of March 31, 2011, of these collateralized mortgage obligations, for the Financial Services Businesses, 25% have credit ratings of A or above, 1% have BBB credit ratings and the remaining 74% have below investment grade ratings, and as of December 31, 2010, 38% have credit ratings of A or above, 7% have BBB credit ratings and the remaining 55% have below investment grade ratings. As of March 31, 2011, for the Closed Block Business, 22% have A credit ratings or above, 45% have BBB credit ratings, and 33% have below investment grade ratings, and as of December 31, 2010, 39% have A credit ratings or above, 35% have BBB credit ratings, and 26% have below investment grade ratings.
- (4) Based on lowest external rating agency rating.

*Commercial Mortgage-Backed Securities*

Weakness in commercial real estate fundamentals, along with an overall decrease in liquidity and availability of capital have led to a very difficult refinancing environment and an increase in the overall delinquency rate on commercial mortgages in the commercial mortgage-backed securities market. Despite an otherwise stabilizing economy, job growth, a key factor in driving demand for commercial real estate, remains weak. However, the pace of deterioration has slowed and prices of commercial real estate appear to have bottomed. There continue to be signs of improvement in commercial real estate fundamentals, such as vacancy rates declining from their peak and positive rent growth that began in 2010. In addition, we have observed several market factors related to commercial mortgage-backed securities issued in 2006 and 2007, including less stringent underwriting, higher levels of leverage and collateral valuations that are generally no longer realizable. To ensure our investment objectives and asset strategies are maintained, we consider these market factors in making our investment decisions on securities in these vintages. The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated by credit quality and by year of issuance (vintage).

**Commercial Mortgage-Backed Securities at Amortized Cost Financial Services Businesses**

| Vintage                                              | March 31, 2011<br>Lowest Rating Agency Rating(1) |        |        |                      |                    | Total<br>Amortized<br>Cost | Total<br>December 31,<br>2010 |
|------------------------------------------------------|--------------------------------------------------|--------|--------|----------------------|--------------------|----------------------------|-------------------------------|
|                                                      | AAA                                              | AA     | A      | BBB<br>(in millions) | BB<br>and<br>below |                            |                               |
| 2011                                                 | \$ 0                                             | \$ 0   | \$ 0   | \$ 0                 | \$ 0               | \$ 0                       | \$ 0                          |
| 2010                                                 | 99                                               | 0      | 0      | 0                    | 0                  | 99                         | 89                            |
| 2009                                                 | 117                                              | 0      | 0      | 0                    | 0                  | 117                        | 117                           |
| 2008                                                 | 176                                              | 0      | 17     | 16                   | 56                 | 265                        | 263                           |
| 2007                                                 | 1,992                                            | 0      | 35     | 122                  | 58                 | 2,207                      | 1,970                         |
| 2006                                                 | 2,893                                            | 285    | 63     | 71                   | 27                 | 3,339                      | 3,307                         |
| 2005                                                 | 1,676                                            | 161    | 145    | 92                   | 39                 | 2,113                      | 1,643                         |
| 2004 & Prior                                         | 954                                              | 239    | 128    | 64                   | 51                 | 1,436                      | 753                           |
| Total commercial mortgage-backed securities(2)(3)(4) | \$ 7,907                                         | \$ 685 | \$ 388 | \$ 365               | \$ 231             | \$ 9,576                   | \$ 8,142                      |

**Table of Contents****Commercial Mortgage-Backed Securities at Fair Value Financial Services Businesses**

| Vintage                                        | March 31, 2011<br>Lowest Rating Agency Rating(1) |        |        |                      |                 | Total<br>Fair<br>Value | Total<br>December 31,<br>2010 |
|------------------------------------------------|--------------------------------------------------|--------|--------|----------------------|-----------------|------------------------|-------------------------------|
|                                                | AAA                                              | AA     | A      | BBB<br>(in millions) | BB and<br>below |                        |                               |
| 2011                                           | \$ 0                                             | \$ 0   | \$ 0   | \$ 0                 | \$ 0            | \$ 0                   | \$ 0                          |
| 2010                                           | 99                                               | 0      | 0      | 0                    | 0               | 99                     | 90                            |
| 2009                                           | 116                                              | 0      | 0      | 0                    | 0               | 116                    | 118                           |
| 2008                                           | 188                                              | 0      | 17     | 15                   | 48              | 268                    | 262                           |
| 2007                                           | 2,070                                            | 0      | 36     | 123                  | 73              | 2,302                  | 2,070                         |
| 2006                                           | 3,111                                            | 312    | 68     | 72                   | 28              | 3,591                  | 3,567                         |
| 2005                                           | 1,810                                            | 166    | 148    | 100                  | 44              | 2,268                  | 1,785                         |
| 2004 & Prior                                   | 981                                              | 244    | 127    | 61                   | 49              | 1,462                  | 779                           |
| Total commercial mortgage-backed securities(2) | \$ 8,375                                         | \$ 722 | \$ 396 | \$ 371               | \$ 242          | \$ 10,106              | \$ 8,671                      |

- (1) The tables above provide ratings as assigned by nationally recognized rating agencies as of March 31, 2011, including Standard & Poor's, Moody's, Fitch, and Realpoint.
- (2) Excluded from the table above are available for sale commercial mortgage-backed securities held outside the general account in other entities and operations. For additional information regarding commercial mortgage-backed securities held outside the general account, see *Invested Assets of Other Entities and Operations* below. Also excluded from the table above are commercial mortgage-backed securities classified as trading and carried at fair value. See *Trading Account Assets Supporting Insurance Liabilities* for additional information regarding these securities.
- (3) Included in the table above as of March 31, 2011 are downgraded super senior securities with amortized cost of \$330 million in AA and \$63 million in A.
- (4) Included in the table above as of March 31, 2011 are agency commercial mortgage-backed securities with amortized cost of \$251 million all rated AAA.

Included in the table above are commercial mortgage-backed securities collateralized by Non-U.S. properties all related to Japanese commercial mortgage-backed securities held by our Japanese insurance operations with an amortized cost of \$12 million in AAA, \$4 million in A, \$17 million in BBB and \$94 million in BB and below as of March 31, 2011 and \$12 million in AAA, \$3 million in A, \$18 million in BBB and \$104 million in BB and below as of December 31, 2010.

Included in the table above are commercial mortgage-backed securities collateralized by U.S. properties all related to commercial mortgage-backed securities held by the Star and Edison Businesses with an amortized cost of \$519 million in AAA, \$296 million in AA, \$259 million in A, \$332 million in BBB and \$135 million in BB and below as of March 31, 2011.

The weighted average estimated subordination percentage of our commercial mortgage-backed securities attributable to the Financial Services Businesses was 30% as of March 31, 2011. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. The weighted average estimated subordination percentage includes an adjustment for that portion of the capital structure, which has been effectively defeased by U.S. Treasury securities. As of March 31, 2011, based on amortized cost, approximately 88% of the commercial mortgage-backed securities attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 67% have estimated credit subordination percentages of 30% or more. The following tables set forth the weighted average estimated subordination percentage, adjusted for that portion of the capital structure which has been effectively defeased by U.S. Treasury securities, of our commercial mortgage-backed securities collateralized by U.S. and Non-U.S. properties, attributable to the Financial Services Businesses based on amortized cost as of March 31, 2011, by rating and vintage.



**Table of Contents****U.S. Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Financial Services Businesses**

| Vintage      | March 31, 2011<br>Lowest Rating Agency Rating(1)(2) |     |     |     | BB and below |
|--------------|-----------------------------------------------------|-----|-----|-----|--------------|
|              | AAA                                                 | AA  | A   | BBB |              |
| 2011         |                                                     |     |     |     |              |
| 2010         |                                                     |     |     |     |              |
| 2009         |                                                     |     |     |     |              |
| 2008         | 32%                                                 |     |     |     |              |
| 2007         | 30%                                                 |     |     |     | 13%          |
| 2006         | 32%                                                 | 33% | 31% |     | 12%          |
| 2005         | 32%                                                 | 17% |     |     | 24%          |
| 2004 & Prior | 29%                                                 | 25% | 23% | 14% | 22%          |

**Non- U.S. Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Financial Services Businesses**

| Vintage      | March 31, 2011<br>Lowest Rating Agency Rating(1)(2) |    |     |     | BB and below |
|--------------|-----------------------------------------------------|----|-----|-----|--------------|
|              | AAA                                                 | AA | A   | BBB |              |
| 2011         |                                                     |    |     |     |              |
| 2010         |                                                     |    |     |     |              |
| 2009         |                                                     |    |     |     |              |
| 2008         |                                                     |    | 40% | 31% | 29%          |
| 2007         |                                                     |    |     |     | 31%          |
| 2006         | 64%                                                 |    |     |     | 38%          |
| 2005         |                                                     |    |     | 59% | 16%          |
| 2004 & Prior |                                                     |    |     |     | 0%           |

- (1) The tables above provide ratings as assigned by nationally recognized rating agencies as of March 31, 2011, including Standard & Poor's, Moody's, Fitch, and Realpoint.
- (2) Excludes agency commercial mortgage-backed securities.

The super senior structure was introduced to the U.S. commercial mortgage-backed securities market in late 2004 and was modified in early 2005 to increase subordination from 20% to 30%. With the changes to the commercial mortgage-backed securities structure in 2005, there became three distinct AAA classes for commercial mortgage-backed securities with fixed rate terms, (1) super senior AAA with 30% subordination, (2) mezzanine AAA with 20% subordination and (3) junior AAA with approximately 14% subordination. The super senior class has priority over the mezzanine and junior classes to all principal cash flows (repayments, prepayments and recoveries on defaulted loans). As a result, all super senior bonds must be completely repaid before the mezzanine or junior bonds receive any principal cash flows. In addition, the super senior bonds will not experience any loss of principal until both the entire mezzanine and junior bonds are written down to zero. We believe the importance of this additional credit enhancement afforded to the super senior class over the mezzanine and junior classes is limited in a benign commercial real estate cycle with low defaults but becomes more significant in a deep commercial real estate downturn under which expected losses increase substantially.

In addition to enhanced subordination, certain securities within the super senior class benefit from the prioritization of principal cash flows. The super senior class is generally structured such that shorter duration time tranches have priority over longer duration time tranches as to all principal cash flows (repayments, prepayments, and recoveries on defaulted loans) until the deal reaches 30% cumulative net loss, at which point all super senior securities are paid pro rata. As a result, short of reaching 30% cumulative net losses, the shorter duration super senior tranches

must be completely repaid before the longest duration super senior tranche

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receives any principal cash flows. We have generally focused our purchases of recent vintage commercial mortgage-backed securities on shorter duration super senior tranches that we believe have sufficient priority to ensure that in most scenarios our positions will be fully repaid prior to the structure reaching the 30% cumulative net loss threshold. The following table sets forth the amortized cost of our AAA commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated, by type and by year of issuance (vintage).

**AAA Rated Commercial Mortgage-Backed Securities Amortized Cost by Type and Vintage - Financial Services Businesses**

|              | March 31, 2011                              |                                            |           |                         |              |                   |       |                                        |
|--------------|---------------------------------------------|--------------------------------------------|-----------|-------------------------|--------------|-------------------|-------|----------------------------------------|
|              | Super Senior AAA Structures                 |                                            |           |                         | Other AAA    |                   |       |                                        |
|              | Super Senior<br>(shorter duration tranches) | Super Senior<br>(longest duration tranche) | Mezzanine | Junior<br>(in millions) | Other Senior | Other Subordinate | Other | Total AAA Securities at Amortized Cost |
| 2011         | \$ 0                                        | \$ 0                                       | \$ 0      | \$ 0                    | \$ 0         | \$ 0              | \$ 0  | \$ 0                                   |
| 2010         | 0                                           | 0                                          | 0         | 0                       | 0            | 0                 | 0     | 0                                      |
| 2009         | 0                                           | 0                                          | 0         | 0                       | 0            | 0                 | 0     | 0                                      |
| 2008         | 177                                         | 0                                          | 0         | 0                       | 0            | 0                 | 0     | 177                                    |
| 2007         | 1,957                                       | 0                                          | 0         | 0                       | 0            | 0                 | 0     | 1,957                                  |
| 2006         | 1,746                                       | 1,134                                      | 0         | 0                       | 0            | 1                 | 12    | 2,893                                  |
| 2005         | 605                                         | 1,039                                      | 0         | 16                      | 0            | 5                 | 10    | 1,675                                  |
| 2004 & Prior | 43                                          | 157                                        | 0         | 57                      | 492          | 201               | 4     | 954                                    |
| Total(1)     | \$ 4,528                                    | \$ 2,330                                   | \$ 0      | \$ 73                   | \$ 492       | \$ 207            | \$ 26 | \$ 7,656                               |

(1) Excludes agency commercial mortgage-backed securities of \$251 million.

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality and by year of issuance (vintage).

**Commercial Mortgage-Backed Securities at Amortized Cost Closed Block Business**

| Vintage      | March 31, 2011                 |      |      |                      |              | Total Amortized Cost | Total December 31, 2010 |
|--------------|--------------------------------|------|------|----------------------|--------------|----------------------|-------------------------|
|              | Lowest Rating Agency Rating(1) |      |      |                      |              |                      |                         |
|              | AAA                            | AA   | A    | BBB<br>(in millions) | BB and below |                      |                         |
| 2011         | \$ 0                           | \$ 0 | \$ 0 | \$ 0                 | \$ 0         | \$ 0                 | \$ 0                    |
| 2010         | 5                              | 0    | 0    | 0                    | 0            | 5                    | 5                       |
| 2009         | 0                              | 0    | 0    | 0                    | 0            | 0                    | 0                       |
| 2008         | 10                             | 0    | 0    | 0                    | 0            | 10                   | 9                       |
| 2007         | 690                            | 0    | 0    | 0                    | 4            | 694                  | 705                     |
| 2006         | 794                            | 65   | 11   | 0                    | 0            | 870                  | 873                     |
| 2005         | 1,210                          | 0    | 25   | 0                    | 0            | 1,235                | 1,219                   |
| 2004 & Prior | 698                            | 33   | 29   | 1                    | 3            | 764                  | 804                     |

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|                                                |          |       |       |      |      |          |          |
|------------------------------------------------|----------|-------|-------|------|------|----------|----------|
| Total commercial mortgage-backed securities(2) | \$ 3,407 | \$ 98 | \$ 65 | \$ 1 | \$ 7 | \$ 3,578 | \$ 3,615 |
|------------------------------------------------|----------|-------|-------|------|------|----------|----------|

**Table of Contents****Commercial Mortgage-Backed Securities at Fair Value Closed Block Business**

| Vintage                                     | March 31, 2011<br>Lowest Rating Agency Rating(1) |        |       |                      |                 | Total<br>Fair<br>Value | Total<br>December 31,<br>2010 |
|---------------------------------------------|--------------------------------------------------|--------|-------|----------------------|-----------------|------------------------|-------------------------------|
|                                             | AAA                                              | AA     | A     | BBB<br>(in millions) | BB and<br>below |                        |                               |
| 2011                                        | \$ 0                                             | \$ 0   | \$ 0  | \$ 0                 | \$ 0            | \$ 0                   | \$ 0                          |
| 2010                                        | 5                                                | 0      | 0     | 0                    | 0               | 5                      | 5                             |
| 2009                                        | 0                                                | 0      | 0     | 0                    | 0               | 0                      | 0                             |
| 2008                                        | 9                                                | 0      | 0     | 0                    | 0               | 9                      | 10                            |
| 2007                                        | 711                                              | 0      | 0     | 0                    | 13              | 724                    | 731                           |
| 2006                                        | 837                                              | 71     | 12    | 0                    | 0               | 920                    | 923                           |
| 2005                                        | 1,263                                            | 0      | 27    | 0                    | 0               | 1,290                  | 1,277                         |
| 2004 & Prior                                | 724                                              | 33     | 30    | 1                    | 3               | 791                    | 833                           |
| Total commercial mortgage-backed securities | \$ 3,549                                         | \$ 104 | \$ 69 | \$ 1                 | \$ 16           | \$ 3,739               | \$ 3,779                      |

- (1) The tables above provide ratings as assigned by nationally recognized rating agencies as of March 31, 2011, including Standard & Poor's, Moody's, Fitch, and Realpoint.
- (2) Included in the table above as of March 31, 2011 are downgraded super senior securities with amortized cost of \$68 million in AA and \$11 million in A.

The weighted average estimated subordination percentage of commercial mortgage-backed securities attributable to the Closed Block Business was 30% as of March 31, 2011. See above for a definition of this percentage. As of March 31, 2011, based on amortized cost, approximately 64% of the commercial mortgage-backed securities attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 41% have estimated credit subordination percentages of 30% or more. The following table sets forth the weighted average estimated subordination percentage, adjusted for that portion of the capital structure which has been effectively defeased by U.S. Treasury securities, of our commercial mortgage-backed securities attributable to the Closed Block Business based on amortized cost as of March 31, 2011, by rating and vintage.

**Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Closed Block Business**

| Vintage      | March 31, 2011<br>Lowest Rating Agency Rating |     |     |     | BB and<br>below |
|--------------|-----------------------------------------------|-----|-----|-----|-----------------|
|              | AAA                                           | AA  | A   | BBB |                 |
| 2011         |                                               |     |     |     |                 |
| 2010         |                                               |     |     |     |                 |
| 2009         |                                               |     |     |     |                 |
| 2008         | 31%                                           |     |     |     |                 |
| 2007         | 30%                                           |     |     |     | 5%              |
| 2006         | 31%                                           | 32% | 31% |     |                 |
| 2005         | 31%                                           |     | 32% |     |                 |
| 2004 & Prior | 31%                                           | 26% | 44% | 10% | 67%             |

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As discussed above, with the changes to the commercial mortgage-backed securities market in late 2004 and early 2005, there are now three distinct AAA classes for commercial mortgage-backed securities with fixed rate terms, (1) super senior AAA with 30% subordination, (2) mezzanine AAA with 20% subordination and (3) junior AAA with approximately 14% subordination. In addition to the enhanced subordination, certain securities within the super senior class benefit from the prioritization of principal cash flows. The following table sets forth the amortized cost our AAA commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by type and by year of issuance (vintage).

**Table of Contents****AAA Rated Commercial Mortgage-Backed Securities Amortized Cost by Type and Vintage - Closed Block Business**

| Vintage      | March 31, 2011                           |                                          |             |                      |               | Other AAA    |                   |             | Total AAA Securities at Amortized Cost |
|--------------|------------------------------------------|------------------------------------------|-------------|----------------------|---------------|--------------|-------------------|-------------|----------------------------------------|
|              | Super Senior AAA Structures              |                                          |             |                      |               | Other Senior | Other Subordinate | Other       |                                        |
|              | Super Senior (shorter duration tranches) | Super Senior (longest duration tranches) | Mezzanine   | Junior (in millions) |               |              |                   |             |                                        |
| 2011         | \$ 0                                     | \$ 0                                     | \$ 0        | \$ 0                 | \$ 0          | \$ 0         | \$ 0              | \$ 0        | \$ 0                                   |
| 2010         | 0                                        | 0                                        | 0           | 0                    | 0             | 0            | 0                 | 0           | 0                                      |
| 2009         | 0                                        | 0                                        | 0           | 0                    | 0             | 0            | 0                 | 0           | 0                                      |
| 2008         | 9                                        | 0                                        | 0           | 0                    | 0             | 0            | 0                 | 0           | 9                                      |
| 2007         | 690                                      | 0                                        | 0           | 0                    | 0             | 0            | 0                 | 0           | 690                                    |
| 2006         | 678                                      | 101                                      | 0           | 0                    | 0             | 0            | 0                 | 15          | 794                                    |
| 2005         | 943                                      | 268                                      | 0           | 0                    | 0             | 0            | 0                 | 0           | 1,211                                  |
| 2004 & Prior | 50                                       | 11                                       | 0           | 0                    | 563           | 73           | 0                 | 0           | 697                                    |
| <b>Total</b> | <b>\$ 2,370</b>                          | <b>\$ 380</b>                            | <b>\$ 0</b> | <b>\$ 0</b>          | <b>\$ 563</b> | <b>\$ 73</b> | <b>\$ 15</b>      | <b>\$ 0</b> | <b>\$ 3,401</b>                        |

(1) Excludes agency commercial mortgage-backed securities of \$6 million.

*Fixed Maturity Securities Credit Quality*

The Securities Valuation Office, or SVO, of the NAIC, evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called NAIC Designations. In general, NAIC designations of 1 highest quality, or 2 high quality, 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 generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody's and BB+ or lower by Standard & Poor's. However, in the fourth quarter of 2009 the NAIC adopted rules which changed the methodology for determining the NAIC Designations for non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages. Under the new rules, rather than being based on the rating of a third party rating agency, as of December 31, 2009 the NAIC Designations for such securities are based on security level expected losses as modeled by an independent third party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized. The modeled results used in determining NAIC designations as of December 31, 2009, were updated and utilized for reporting as of December 31, 2010 and remain unchanged and were utilized for March 31, 2011. In the fourth quarter of 2010, the NAIC adopted rules which changed the methodology for determining the NAIC designations for commercial mortgage-backed securities, similar to what was done in the fourth quarter of 2009 for residential mortgage-backed securities.

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.

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

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quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody's, Standard & Poor's, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

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The amortized cost of our public and private fixed maturities attributable to the Financial Services Businesses considered other than high or highest quality based on NAIC or equivalent rating totaled \$8.2 billion, or 4%, of the total fixed maturities as of March 31, 2011 and \$8.7 billion, or 6%, of the total fixed maturities as of December 31, 2010. Fixed maturities considered other than high or highest quality based on NAIC or equivalent rating represented 23% and 27% of the gross unrealized losses attributable to the Financial Services Businesses as of March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011, the amortized cost of our public and private below investment grade fixed maturities attributable to the Financial Services Businesses, based on the lowest of external rating agency ratings, totaled \$10.1 billion, or 5%, of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the new rules for residential mortgage-backed securities described above.

The amortized cost of our public and private fixed maturities attributable to the Closed Block Business considered other than high or highest quality based on NAIC or equivalent rating totaled \$5.3 billion, or 12%, of the total fixed maturities as of March 31, 2011 and \$5.6 billion, or 13%, of the total fixed maturities as of December 31, 2010. Fixed maturities considered other than high or highest quality based on NAIC or equivalent rating represented 40% of the gross unrealized losses attributable to the Closed Block Business as of March 31, 2011, and 44% as of December 31, 2010. As of March 31, 2011, the amortized cost of our public and private below investment grade fixed maturities attributable to the Closed Block Business, based on the lowest of external rating agency ratings, totaled \$6.4 billion, or 15%, of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the new rules for residential mortgage-backed securities described above.

*Public Fixed Maturities Credit Quality*

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

**Public Fixed Maturity Securities Financial Services Businesses**

| (1) (2)<br><br>NAIC Designation             | Amortized<br>Cost | March 31, 2011                   |                                  | Fair<br>Value | Amortized<br>Cost | December 31, 2010               |                                  | Fair<br>Value |
|---------------------------------------------|-------------------|----------------------------------|----------------------------------|---------------|-------------------|---------------------------------|----------------------------------|---------------|
|                                             |                   | Gross<br>Unrealized<br>Gains (3) | Gross<br>Unrealized<br>Losses(3) |               |                   | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) |               |
| (in millions)                               |                   |                                  |                                  |               |                   |                                 |                                  |               |
| 1                                           | \$ 140,731        | \$ 5,454                         | \$ 1,517                         | \$ 144,668    | \$ 105,068        | \$ 6,278                        | \$ 1,240                         | \$ 110,106    |
| 2                                           | 15,815            | 863                              | 608                              | 16,070        | 14,129            | 892                             | 585                              | 14,436        |
| Subtotal High or Highest Quality Securities | 156,546           | 6,317                            | 2,125                            | 160,738       | 119,197           | 7,170                           | 1,825                            | 124,542       |
| 3                                           | 2,405             | 83                               | 205                              | 2,283         | 2,753             | 100                             | 208                              | 2,645         |
| 4                                           | 1,094             | 24                               | 204                              | 914           | 1,067             | 24                              | 206                              | 885           |
| 5                                           | 565               | 31                               | 163                              | 433           | 630               | 21                              | 211                              | 440           |
| 6                                           | 234               | 25                               | 67                               | 192           | 271               | 28                              | 89                               | 210           |
| Subtotal Other Securities (4)               | 4,298             | 163                              | 639                              | 3,822         | 4,721             | 173                             | 714                              | 4,180         |
| Total Public Fixed Maturities               | \$ 160,844        | \$ 6,480                         | \$ 2,764                         | \$ 164,560    | \$ 123,918        | \$ 7,343                        | \$ 2,539                         | \$ 128,722    |

(1) Reflects equivalent ratings for investments of the international insurance operations.

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- (2) Includes, as of March 31, 2011 and December 31, 2010, 16 securities with amortized cost of \$3 million (fair value, \$13 million) and 17 securities with amortized cost of \$11 million (fair value, \$20 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
- (3) Includes \$213 million of gross unrealized gains and \$72 million gross unrealized losses as of March 31, 2011, compared to \$272 million of gross unrealized gains and \$67 million of gross unrealized losses as of December 31, 2010 on securities classified as held-to-maturity.
- (4) On amortized cost basis, as of March 31, 2011 includes \$139 million in emerging market securities and \$96 million in securitized bank loans.

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

**Public Fixed Maturity Securities Closed Block Business**

| (1)                                         |                |                                                |                               |               |                |                                                   |                               |            |  |
|---------------------------------------------|----------------|------------------------------------------------|-------------------------------|---------------|----------------|---------------------------------------------------|-------------------------------|------------|--|
| NAIC Designation                            | Amortized Cost | March 31, 2011<br>Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value    | Amortized Cost | December 31, 2010<br>Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |  |
|                                             |                |                                                |                               | (in millions) |                |                                                   |                               |            |  |
| 1                                           | \$ 22,256      | \$ 918                                         | \$ 585                        | \$ 22,589     | \$ 21,965      | \$ 1,075                                          | \$ 551                        | \$ 22,489  |  |
| 2                                           | 4,711          | 416                                            | 71                            | 5,056         | 4,842          | 423                                               | 88                            | 5,177      |  |
| Subtotal High or Highest Quality Securities | 26,967         | 1,334                                          | 656                           | 27,645        | 26,807         | 1,498                                             | 639                           | 27,666     |  |
| 3                                           | 1,540          | 70                                             | 104                           | 1,506         | 1,547          | 73                                                | 77                            | 1,543      |  |
| 4                                           | 852            | 34                                             | 139                           | 747           | 1,031          | 27                                                | 201                           | 857        |  |
| 5                                           | 475            | 17                                             | 155                           | 337           | 527            | 17                                                | 176                           | 368        |  |
| 6                                           | 46             | 22                                             | 7                             | 61            | 58             | 20                                                | 13                            | 65         |  |
| Subtotal Other Securities(2)                | 2,913          | 143                                            | 405                           | 2,651         | 3,163          | 137                                               | 467                           | 2,833      |  |
| Total Public Fixed Maturities               | \$ 29,880      | \$ 1,477                                       | \$ 1,061                      | \$ 30,296     | \$ 29,970      | \$ 1,635                                          | \$ 1,106                      | \$ 30,499  |  |

(1) Includes, as of March 31, 2011 and December 31, 2010, 17 securities with amortized cost of \$13 million (fair value, \$14 million) and 15 securities with amortized cost of \$9 million (fair value, \$10 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(2) On an amortized cost basis, as of March 31, 2011, includes \$413 million in securitized bank loans and \$223 million in emerging markets securities.

**Private Fixed Maturities Credit Quality**

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

**Private Fixed Maturity Securities Financial Services Businesses**

| (1) (2)                                     |                |                                                   |                                  |               |                |                                                      |                                  |            |  |
|---------------------------------------------|----------------|---------------------------------------------------|----------------------------------|---------------|----------------|------------------------------------------------------|----------------------------------|------------|--|
| NAIC Designation                            | Amortized Cost | March 31, 2011<br>Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) | Fair Value    | Amortized Cost | December 31, 2010<br>Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) | Fair Value |  |
|                                             |                |                                                   |                                  | (in millions) |                |                                                      |                                  |            |  |
| 1                                           | \$ 6,483       | \$ 461                                            | \$ 98                            | \$ 6,846      | \$ 6,226       | \$ 511                                               | \$ 90                            | \$ 6,647   |  |
| 2                                           | 14,130         | 820                                               | 354                              | 14,596        | 13,264         | 792                                                  | 341                              | 13,715     |  |
| Subtotal High or Highest Quality Securities | 20,613         | 1,281                                             | 452                              | 21,442        | 19,490         | 1,303                                                | 431                              | 20,362     |  |

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|                                |           |          |        |           |           |          |        |           |
|--------------------------------|-----------|----------|--------|-----------|-----------|----------|--------|-----------|
| 3                              | 2,485     | 112      | 53     | 2,544     | 2,467     | 104      | 63     | 2,508     |
| 4                              | 861       | 16       | 35     | 842       | 948       | 26       | 44     | 930       |
| 5                              | 493       | 15       | 14     | 494       | 518       | 21       | 17     | 522       |
| 6                              | 111       | 41       | 9      | 143       | 95        | 29       | 6      | 118       |
| Subtotal Other Securities(4)   | 3,950     | 184      | 111    | 4,023     | 4,028     | 180      | 130    | 4,078     |
| Total Private Fixed Maturities | \$ 24,563 | \$ 1,465 | \$ 563 | \$ 25,465 | \$ 23,518 | \$ 1,483 | \$ 561 | \$ 24,440 |

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- (1) Reflects equivalent ratings for investments of the international insurance operations.
- (2) Includes, as of March 31, 2011 and December 31, 2010, 161 securities with amortized cost of \$1,585 million (fair value, \$1,614 million) and 160 securities with amortized cost of \$1,776 million (fair value, \$1,800 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
- (3) Includes \$42 million of gross unrealized gains and \$1 million of gross unrealized losses as of March 31, 2011, compared to \$47 million of gross unrealized gains and \$1 million of gross unrealized losses as of December 31, 2010 on securities classified as held to maturity.
- (4) On an amortized cost basis, as of March 31, 2011 includes \$547 million in securitized bank loans and \$211 million in commercial asset finance securities.

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

### Private Fixed Maturity Securities Closed Block Business

| (1)<br>NAIC Designation                     | Amortized<br>Cost | March 31, 2011<br>Gross<br>Unrealized<br>Gains | March 31, 2011<br>Gross<br>Unrealized<br>Losses | Fair<br>Value<br>(in millions) | Amortized<br>Cost | December 31, 2010<br>Gross<br>Unrealized<br>Gains | December 31, 2010<br>Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---------------------------------------------|-------------------|------------------------------------------------|-------------------------------------------------|--------------------------------|-------------------|---------------------------------------------------|----------------------------------------------------|---------------|
| 1                                           | \$ 3,735          | \$ 419                                         | \$ 11                                           | \$ 4,143                       | \$ 3,702          | \$ 447                                            | \$ 11                                              | \$ 4,138      |
| 2                                           | 7,359             | 724                                            | 25                                              | 8,058                          | 7,386             | 711                                               | 35                                                 | 8,062         |
| Subtotal High or Highest Quality Securities | 11,094            | 1,143                                          | 36                                              | 12,201                         | 11,088            | 1,158                                             | 46                                                 | 12,200        |
| 3                                           | 1,330             | 73                                             | 16                                              | 1,387                          | 1,292             | 67                                                | 21                                                 | 1,338         |
| 4                                           | 727               | 10                                             | 19                                              | 718                            | 803               | 12                                                | 23                                                 | 792           |
| 5                                           | 314               | 5                                              | 8                                               | 311                            | 307               | 6                                                 | 16                                                 | 297           |
| 6                                           | 47                | 1                                              | 5                                               | 43                             | 46                | 7                                                 | 2                                                  | 51            |
| Subtotal Other Securities(2)                | 2,418             | 89                                             | 48                                              | 2,459                          | 2,448             | 92                                                | 62                                                 | 2,478         |
| Total Private Fixed Maturities              | \$ 13,512         | \$ 1,232                                       | \$ 84                                           | \$ 14,660                      | \$ 13,536         | \$ 1,250                                          | \$ 108                                             | \$ 14,678     |

- (1) Includes, as of March 31, 2011 and December 31, 2010, 89 securities with amortized cost of \$1,135 million (fair value, \$1,132 million) and 103 securities with amortized cost of \$1,523 million (fair value, \$1,506 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
- (2) On an amortized cost basis, as of March 31, 2011, includes \$374 million in securitized bank loans and \$368 million in commercial asset finance securities.

**Table of Contents***Corporate Securities Credit Quality*

The following table sets forth both our public and private corporate securities by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

**Corporate Securities Financial Services Businesses**

| (1)                                         |                |                        | March 31, 2011          |               |                |                        | December 31, 2010       |            |  |
|---------------------------------------------|----------------|------------------------|-------------------------|---------------|----------------|------------------------|-------------------------|------------|--|
| NAIC Designation                            | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value    | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |  |
|                                             |                |                        |                         | (in millions) |                |                        |                         |            |  |
| 1                                           | \$ 55,985      | \$ 2,231               | \$ 798                  | \$ 57,418     | \$ 36,486      | \$ 2,413               | \$ 645                  | \$ 38,254  |  |
| 2                                           | 27,548         | 1,577                  | 897                     | 28,228        | 25,678         | 1,598                  | 844                     | 26,432     |  |
| Subtotal High or Highest Quality Securities | 83,533         | 3,808                  | 1,695                   | 85,646        | 62,164         | 4,011                  | 1,489                   | 64,686     |  |
| 3                                           | 4,201          | 170                    | 168                     | 4,203         | 4,253          | 150                    | 191                     | 4,212      |  |
| 4                                           | 1,421          | 34                     | 83                      | 1,372         | 1,483          | 33                     | 99                      | 1,417      |  |
| 5                                           | 564            | 42                     | 23                      | 583           | 546            | 33                     | 22                      | 557        |  |
| 6                                           | 148            | 41                     | 13                      | 176           | 130            | 39                     | 11                      | 158        |  |
| Subtotal Other Securities                   | 6,334          | 287                    | 287                     | 6,334         | 6,412          | 255                    | 323                     | 6,344      |  |
| Total Corporate Fixed Maturities            | \$ 89,867      | \$ 4,095               | \$ 1,982                | \$ 91,980     | \$ 68,576      | \$ 4,266               | \$ 1,812                | \$ 71,030  |  |

(1) Reflects equivalent ratings for investments of the international insurance operations.

The following table sets forth our corporate securities by NAIC designation attributable to the Closed Block Business as of the dates indicated.

**Corporate Securities Closed Block Business**

|                                             |                | March 31, 2011         |                         |               |                | December 31, 2010      |                         |            |  |
|---------------------------------------------|----------------|------------------------|-------------------------|---------------|----------------|------------------------|-------------------------|------------|--|
| NAIC Designation                            | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value    | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |  |
|                                             |                |                        |                         | (in millions) |                |                        |                         |            |  |
| 1                                           | \$ 10,144      | \$ 842                 | \$ 53                   | \$ 10,933     | \$ 10,064      | \$ 951                 | \$ 65                   | \$ 10,950  |  |
| 2                                           | 11,414         | 1,088                  | 43                      | 12,459        | 11,505         | 1,080                  | 65                      | 12,520     |  |
| Subtotal High or Highest Quality Securities | 21,558         | 1,930                  | 96                      | 23,392        | 21,569         | 2,031                  | 130                     | 23,470     |  |
| 3                                           | 2,253          | 122                    | 22                      | 2,353         | 2,309          | 115                    | 31                      | 2,393      |  |
| 4                                           | 1,198          | 41                     | 41                      | 1,198         | 1,320          | 35                     | 55                      | 1,300      |  |
| 5                                           | 410            | 18                     | 14                      | 414           | 422            | 19                     | 22                      | 419        |  |

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|                                  |   |           |          |        |           |           |          |        |           |
|----------------------------------|---|-----------|----------|--------|-----------|-----------|----------|--------|-----------|
|                                  | 6 | 80        | 14       | 6      | 88        | 77        | 20       | 4      | 93        |
| Subtotal Other Securities        |   | 3,941     | 195      | 83     | 4,053     | 4,128     | 189      | 112    | 4,205     |
| Total Corporate Fixed Maturities |   | \$ 25,499 | \$ 2,125 | \$ 179 | \$ 27,445 | \$ 25,697 | \$ 2,220 | \$ 242 | \$ 27,675 |

### *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 exposure similar to an investment in public fixed maturity cash instruments.

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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 on the remaining names within such instruments require no further payment to counterparties.

The 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 have maturities of ten years or less. 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 attributable to the Financial Services Businesses was \$1 million and \$2 million for the three months ended March 31, 2011 and 2010, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

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

**Credit Derivatives, Sold Protection Financial Services Businesses**

| NAIC Designation | Single Name |            | March 31, 2011<br>First-to-Default Basket(1) |            | Total    |            |
|------------------|-------------|------------|----------------------------------------------|------------|----------|------------|
|                  | Notional    | Fair Value | Notional                                     | Fair Value | Notional | Fair Value |
|                  |             |            | (in millions)                                |            |          |            |
| 1                | \$ 745      | \$ 5       | \$ 0                                         | \$ 0       | \$ 745   | \$ 5       |
| 2                | 25          | 0          | 0                                            | 0          | 25       | 0          |
| Subtotal         | 770         | 5          | 0                                            | 0          | 770      | 5          |
| 3                | 0           | 0          | 0                                            | 0          | 0        | 0          |
| 4                | 0           | 0          | 0                                            | 0          | 0        | 0          |
| 5                | 0           | 0          | 0                                            | 0          | 0        | 0          |
| 6                | 0           | 0          | 0                                            | 0          | 0        | 0          |
| Subtotal         | 0           | 0          | 0                                            | 0          | 0        | 0          |
| Total (2)        | \$ 770      | \$ 5       | \$ 0                                         | \$ 0       | \$ 770   | \$ 5       |

| NAIC Designation | Single Name |            | December 31, 2010<br>First-to-Default Basket(1) |            | Total    |            |
|------------------|-------------|------------|-------------------------------------------------|------------|----------|------------|
|                  | Notional    | Fair Value | Notional                                        | Fair Value | Notional | Fair Value |
|                  |             |            | (in millions)                                   |            |          |            |
| 1                | \$ 290      | \$ 3       | \$ 0                                            | \$ 0       | \$ 290   | \$ 3       |
| 2                | 25          | 0          | 0                                               | 0          | 25       | 0          |
| Subtotal         | 315         | 3          | 0                                               | 0          | 315      | 3          |
| 3                | 0           | 0          | 0                                               | 0          | 0        | 0          |
| 4                | 0           | 0          | 0                                               | 0          | 0        | 0          |

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|          |   |        |      |      |      |        |      |
|----------|---|--------|------|------|------|--------|------|
|          | 5 | 0      | 0    | 0    | 0    | 0      | 0    |
|          | 6 | 0      | 0    | 0    | 0    | 0      | 0    |
| Subtotal |   | 0      | 0    | 0    | 0    | 0      | 0    |
| Total(2) |   | \$ 315 | \$ 3 | \$ 0 | \$ 0 | \$ 315 | \$ 3 |

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- (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.
- (2) Excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in certain externally-managed investments in the European market. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding these derivatives.

The following table sets forth our exposure where we have sold credit protection through credit derivatives in the Closed Block Business portfolios by NAIC designation of the underlying credits as of the dates indicated.

**Credit Derivatives, Sold Protection Closed Block Business**

| NAIC Designation | March 31, 2011<br>Single Name |                             | December 31, 2010<br>Single Name |            |
|------------------|-------------------------------|-----------------------------|----------------------------------|------------|
|                  | Notional                      | Fair Value<br>(in millions) | Notional                         | Fair Value |
| 1                | \$ 50                         | \$ 0                        | \$ 5                             | \$ 0       |
| 2                | 0                             | 0                           | 0                                | 0          |
| Subtotal         | 50                            | 0                           | 5                                | 0          |
| 3                | 0                             | 0                           | 0                                | 0          |
| 4                | 0                             | 0                           | 0                                | 0          |
| 5                | 0                             | 0                           | 0                                | 0          |
| 6                | 0                             | 0                           | 0                                | 0          |
| Subtotal         | 0                             | 0                           | 0                                | 0          |
| Total(1)         | \$ 50                         | \$ 0                        | \$ 5                             | \$ 0       |

- (1) Excludes embedded derivatives contained in certain externally-managed investments in the European market. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding these derivatives.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio, including exposures relating to certain guarantees from monoline bond insurers. As of March 31, 2011 and December 31, 2010, the Financial Services Businesses had \$1.676 billion and \$1.785 billion of outstanding notional amounts, reported at fair value as a \$60 million liability and a \$2 million asset, respectively. As of March 31, 2011 and December 31, 2010, the Closed Block Business had \$381 million and \$399 million of outstanding notional amounts, reported at fair value as a liability of \$13 million and \$1 million, respectively. The premium paid for the credit derivatives we purchase attributable to the Financial Services Businesses was \$11 million and \$13 million for the three months ended March 31, 2011 and 2010, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net. See Note 21 to the Unaudited Interim Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

**Table of Contents***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:

**Unrealized Losses from Fixed Maturity Securities, Greater than 20% Financial Services Businesses**

|                                                    | March 31, 2011 |            | December 31, 2010 |            |
|----------------------------------------------------|----------------|------------|-------------------|------------|
|                                                    | Amortized      | Gross      | Amortized         | Gross      |
|                                                    | Cost(1)        | Unrealized | Cost(1)           | Unrealized |
|                                                    |                | Losses(1)  |                   | Losses(1)  |
|                                                    | (in millions)  |            |                   |            |
| Less than three months                             | \$ 165         | \$ 35      | \$ 622            | \$ 136     |
| Three months or greater but less than six months   | 1,598          | 356        | 751               | 169        |
| Six months or greater but less than nine months    | 734            | 183        | 1,094             | 283        |
| Nine months or greater but less than twelve months | 979            | 264        | 173               | 52         |
| Greater than twelve months                         | 2,411          | 821        | 2,503             | 908        |
| Total                                              | \$ 5,887       | \$ 1,659   | \$ 5,143          | \$ 1,548   |

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below amortized cost by 20% or more, using month-end valuations.

The gross unrealized losses were primarily concentrated in asset-backed securities as of March 31, 2011 and December 31, 2010. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more of \$1.659 billion as of March 31, 2011 includes \$616 million relating to asset-backed securities collateralized by sub-prime mortgages. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more as of March 31, 2011 also include \$44 million of gross unrealized losses on securities with amortized cost of \$74 million where the estimated fair value had declined and remained below amortized cost by 50% or more, of which, \$3 million was included in the six months or greater but less than nine months timeframe, \$2 million was included in the nine months or greater but less than twelve months timeframe, and \$39 million was included in the greater than twelve months timeframe. We have not recognized the gross unrealized losses shown in the tables above as other-than-temporary impairments in earnings based on our detailed analysis of the underlying credit and cash flows on each of these securities. The gross unrealized losses are primarily attributable to general credit spread widening in the structured credit marketplace and liquidity discounts, and we believe the recoverable value of these investments based on the expected future cash flows is greater than or equal to our remaining amortized cost. At March 31, 2011, we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the anticipated recovery of its remaining amortized cost basis. See Other-Than-Temporary Impairments of Fixed Maturity Securities for a discussion of the factors we consider in making these determinations.

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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:

**Unrealized Losses from Fixed Maturity Securities, Greater than 20% Closed Block Business**

|                                                    | March 31, 2011       |                                  | December 31, 2010    |                                  |
|----------------------------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|
|                                                    | Amortized<br>Cost(1) | Gross<br>Unrealized<br>Losses(1) | Amortized<br>Cost(1) | Gross<br>Unrealized<br>Losses(1) |
|                                                    | (in millions)        |                                  |                      |                                  |
| Less than three months                             | \$ 58                | \$ 13                            | \$ 173               | \$ 37                            |
| Three months or greater but less than six months   | 258                  | 57                               | 149                  | 43                               |
| Six months or greater but less than nine months    | 120                  | 34                               | 70                   | 16                               |
| Nine months or greater but less than twelve months | 7                    | 2                                | 73                   | 22                               |
| Greater than twelve months                         | 1,326                | 487                              | 1,518                | 559                              |
| Total                                              | \$ 1,769             | \$ 593                           | \$ 1,983             | \$ 677                           |

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below amortized cost by 20% or more, using month-end valuations.

The gross unrealized losses were primarily concentrated in asset-backed securities as of March 31, 2011 and December 31, 2010. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more of \$593 million as of March 31, 2011 includes \$473 million relating to asset-backed securities collateralized by sub-prime mortgages. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more as of March 31, 2011 does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below amortized cost by 50% or more. We have not recognized the gross unrealized losses shown in the tables above as other-than-temporary impairments in earnings based on our detailed analysis of the underlying credit and cash flows on each of these securities. The gross unrealized losses are primarily attributable to general credit spread widening in the structured credit marketplace and liquidity discounts, and we believe the recoverable value of these investments based on the expected future cash flows is greater than or equal to our remaining amortized cost. At March 31, 2011, we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the anticipated recovery of its remaining amortized cost basis. See *Other-Than-Temporary Impairments of Fixed Maturity Securities* for a discussion of the factors we consider in making these determinations.

*Other-Than-Temporary 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 company or industry specific concerns.

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

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fair value of all investments quarterly. Our private fixed maturity asset managers formally review all private 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 company or industry specific concerns.

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 statements 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 consistently consider several factors including, but not limited to, the following:

the reasons for the decline in value (credit event, currency or interest rate related, including general credit spread widening);

the financial condition of and near-term prospects of the issuer; and

the extent and duration of the decline.

In determining whether a decline in value is other-than-temporary, we place greater emphasis on our analysis of the underlying credit versus the extent and duration of a decline in value. Our credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that we will be able to collect all amounts due according to the contractual terms of the security, and analyzing our overall ability to recover the amortized cost of the investment. We continue to utilize valuation declines as a potential indicator of credit deterioration, and apply additional levels of scrutiny in our analysis as the severity and duration of the decline increases.

In addition, we recognize an other-than-temporary impairment in earnings for a debt security in an unrealized loss position when (a) we have the intent to sell the debt security or (b) it is more likely than not we will be required to sell the debt security before its anticipated recovery or (c) a foreign currency denominated security with a foreign currency translation loss approaches maturity. For all debt securities in unrealized loss positions that do not meet any of these criteria, we analyze our ability to recover the amortized cost by comparing the net present value of our best estimate of projected future cash flows with the amortized cost of the security. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded. The determination of the assumptions used in these projections requires the use of significant management judgment. See Note 2 to the Unaudited Interim Consolidated Financial Statements for additional information regarding these assumptions and our policies for recognizing other-than-temporary impairments for debt securities.

Other-than-temporary impairments of general account fixed maturity securities attributable to the Financial Services Businesses that were recognized in earnings were \$79 million and \$216 million for the three months ended March 31, 2011 and 2010, respectively. Included in the other-than-temporary impairments of general account fixed maturities attributable to the Financial Services Businesses for the three months ended March 31, 2011 and 2010, were \$31 million and \$50 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages.

Other-than-temporary impairments of fixed maturity securities attributable to the Closed Block Business that were recognized in earnings were \$25 million and \$38 million for the three months ended March 31, 2011 and 2010, respectively. Included in the other-than-temporary impairments of fixed maturities attributable to the Closed Block Business for the three months ended March 31, 2011 and 2010, were \$18 million and \$22 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. For a further discussion of other-than-temporary impairments, see Realized Investment Gains and Losses above.



**Table of Contents*****Trading account assets supporting insurance liabilities***

Certain products included in the Retirement and International Insurance segments are experience-rated, meaning that we expect the investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage and other 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, and excluded from adjusted operating income. Investment income for these investments is reported in Net investment income, and is included in adjusted operating income. The following table sets forth the composition of this portfolio as of the dates indicated.

|                                                                         | March 31, 2011    |               | December 31, 2010 |               |
|-------------------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                         | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|                                                                         | (in millions)     |               |                   |               |
| Short-term investments and cash equivalents                             | \$ 539            | \$ 539        | \$ 697            | \$ 697        |
| Fixed Maturities:                                                       |                   |               |                   |               |
| Corporate securities                                                    | 9,799             | 10,296        | 9,581             | 10,118        |
| Commercial mortgage-backed securities                                   | 2,383             | 2,427         | 2,352             | 2,407         |
| Residential mortgage-backed securities                                  | 1,446             | 1,458         | 1,350             | 1,363         |
| Asset-backed securities                                                 | 1,325             | 1,216         | 1,158             | 1,030         |
| Foreign government bonds                                                | 620               | 625           | 567               | 569           |
| U.S. government authorities and agencies and obligations of U.S. states | 522               | 503           | 467               | 448           |
| Total fixed maturities                                                  | 16,095            | 16,525        | 15,475            | 15,935        |
| Equity securities                                                       | 1,281             | 1,250         | 1,156             | 1,139         |
| Total trading account assets supporting insurance liabilities           | \$ 17,915         | \$ 18,314     | \$ 17,328         | \$ 17,771     |

As a percentage of amortized cost, 76% of the portfolio was publicly traded as of both March 31, 2011, and December 31, 2010. As of March 31, 2011 and December 31, 2010, 93% and 90%, respectively, of the fixed maturity portfolio was considered high or highest quality based on NAIC or equivalent rating. As of March 31, 2011, \$1.305 billion of the residential mortgage-backed securities were publicly traded agency pass-through securities, which are supported by implicit or explicit government guarantees all of which have credit ratings of A or higher. Collateralized mortgage obligations, including approximately \$100 million secured by ALT-A mortgages, represented the remaining \$141 million of residential mortgage-backed securities, of which 89% have credit ratings of A or better and 11% are BBB and below. For a discussion of changes in the fair value of our trading account assets supporting insurance liabilities see Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes, above.

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The following table sets forth the composition by industry category of the corporate securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated.

**Corporate Securities by Industry Category - Trading Account Assets Supporting Insurance Liabilities**

| Industry(1)                | March 31, 2011 |                             | December 31, 2010 |            |
|----------------------------|----------------|-----------------------------|-------------------|------------|
|                            | Amortized Cost | Fair Value<br>(in millions) | Amortized Cost    | Fair Value |
| Corporate Securities:      |                |                             |                   |            |
| Manufacturing              | \$ 3,119       | \$ 3,317                    | \$ 3,084          | \$ 3,306   |
| Utilities                  | 1,839          | 1,946                       | 1,961             | 2,076      |
| Services                   | 1,804          | 1,887                       | 1,700             | 1,783      |
| Finance                    | 1,513          | 1,531                       | 1,270             | 1,290      |
| Energy                     | 641            | 686                         | 704               | 753        |
| Transportation             | 455            | 484                         | 467               | 495        |
| Retail and Wholesale       | 411            | 428                         | 378               | 398        |
| Other                      | 17             | 17                          | 17                | 17         |
| Total Corporate Securities | \$ 9,799       | \$ 10,296                   | \$ 9,581          | \$ 10,118  |

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

The following tables set forth our asset-backed securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

**Asset-Backed Securities at Amortized Cost Trading Account Assets Supporting Insurance Liabilities**

| Vintage                                     | March 31, 2011<br>Lowest Rating Agency Rating |      |      |                      |                    | Total<br>Amortized<br>Cost | Total<br>December<br>31,<br>2010 |  |
|---------------------------------------------|-----------------------------------------------|------|------|----------------------|--------------------|----------------------------|----------------------------------|--|
|                                             | AAA                                           | AA   | A    | BBB<br>(in millions) | BB<br>and<br>below |                            |                                  |  |
| Collateralized by sub-prime mortgages:      |                                               |      |      |                      |                    |                            |                                  |  |
| 2011 2008                                   | \$ 0                                          | \$ 0 | \$ 0 | \$ 0                 | \$ 0               | \$ 0                       | \$ 0                             |  |
| 2007                                        | 0                                             | 0    | 0    | 0                    | 123                | 123                        | 124                              |  |
| 2006                                        | 0                                             | 0    | 0    | 2                    | 93                 | 95                         | 101                              |  |
| 2005                                        | 0                                             | 0    | 0    | 0                    | 39                 | 39                         | 50                               |  |
| 2004 & Prior                                | 1                                             | 9    | 4    | 12                   | 43                 | 69                         | 71                               |  |
| Total collateralized by sub-prime mortgages | 1                                             | 9    | 4    | 14                   | 298                | 326                        | 346                              |  |
| Other asset-backed securities:              |                                               |      |      |                      |                    |                            |                                  |  |

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|                                |        |        |       |       |        |          |          |
|--------------------------------|--------|--------|-------|-------|--------|----------|----------|
| Collateralized by auto loans   | 70     | 0      | 0     | 0     | 0      | 70       | 36       |
| Collateralized by credit cards | 364    | 0      | 0     | 54    | 0      | 418      | 443      |
| Other asset-backed securities  | 217    | 219    | 39    | 21    | 15     | 511      | 333      |
| Total asset-backed securities  | \$ 652 | \$ 228 | \$ 43 | \$ 89 | \$ 313 | \$ 1,325 | \$ 1,158 |

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**Table of Contents****Asset-Backed Securities at Fair Value    Trading Account Assets Supporting Insurance Liabilities**

| Vintage                                        | March 31, 2011<br>Lowest Rating Agency Rating |        |       |                      |                    | Total<br>Fair<br>Value | Total<br>December<br>31,<br>2010 |  |
|------------------------------------------------|-----------------------------------------------|--------|-------|----------------------|--------------------|------------------------|----------------------------------|--|
|                                                | AAA                                           | AA     | A     | BBB<br>(in millions) | BB<br>and<br>below |                        |                                  |  |
| Collateralized by sub-prime mortgages:         |                                               |        |       |                      |                    |                        |                                  |  |
| 2011 2008                                      | \$ 0                                          | \$ 0   | \$ 0  | \$ 0                 | \$ 0               | \$ 0                   | \$ 0                             |  |
| 2007                                           | 0                                             | 0      | 0     | 0                    | 57                 | 57                     | 56                               |  |
| 2006                                           | 0                                             | 0      | 0     | 2                    | 60                 | 62                     | 65                               |  |
| 2005                                           | 0                                             | 0      | 0     | 0                    | 31                 | 31                     | 36                               |  |
| 2004 & Prior                                   | 0                                             | 8      | 3     | 10                   | 29                 | 50                     | 51                               |  |
| Total collateralized by sub-prime mortgages(1) |                                               |        |       |                      |                    |                        |                                  |  |
|                                                | 0                                             | 8      | 3     | 12                   | 177                | 200                    | 208                              |  |
| Other asset-backed securities:                 |                                               |        |       |                      |                    |                        |                                  |  |
| Collateralized by auto loans                   | 70                                            | 0      | 0     | 0                    | 0                  | 70                     | 36                               |  |
| Collateralized by credit cards                 | 381                                           | 0      | 0     | 54                   | 0                  | 435                    | 460                              |  |
| Other asset-backed securities(2)               | 221                                           | 221    | 40    | 17                   | 12                 | 511                    | 326                              |  |
| Total asset-backed securities                  |                                               |        |       |                      |                    |                        |                                  |  |
|                                                | \$ 672                                        | \$ 229 | \$ 43 | \$ 83                | \$ 189             | \$ 1,216               | \$ 1,030                         |  |

- (1) Included within the \$200 million of asset-backed securities collateralized by sub-prime mortgages at fair value as of March 31, 2011 are \$2 million of securities collateralized by second-lien exposures at fair value.
- (2) As of March 31, 2011, includes collateralized debt obligations with fair value of \$24 million, none of which is secured by sub-prime mortgages. Also includes asset-backed securities collateralized by timeshares, education loans, equipment leases and franchises.

The following tables set forth our commercial mortgage-backed securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated, by credit quality and by year of issuance (vintage).

**Commercial Mortgage-Backed Securities at Amortized Cost    Trading Account Assets Supporting Insurance Liabilities**

| Vintage      | March 31, 2011<br>Lowest Rating Agency Rating |      |      |                      |                    | Total<br>Amortized<br>Cost | Total<br>December<br>31,<br>2010 |
|--------------|-----------------------------------------------|------|------|----------------------|--------------------|----------------------------|----------------------------------|
|              | AAA                                           | AA   | A    | BBB<br>(in millions) | BB<br>and<br>below |                            |                                  |
| 2011         | \$ 0                                          | \$ 0 | \$ 0 | \$ 0                 | \$ 0               | \$ 0                       | \$ 0                             |
| 2010         | 103                                           | 0    | 0    | 0                    | 0                  | 103                        | 65                               |
| 2009         | 4                                             | 0    | 0    | 0                    | 0                  | 4                          | 32                               |
| 2008         | 30                                            | 0    | 0    | 0                    | 0                  | 30                         | 30                               |
| 2007         | 152                                           | 0    | 0    | 0                    | 0                  | 152                        | 128                              |
| 2006         | 604                                           | 53   | 0    | 0                    | 0                  | 657                        | 651                              |
| 2005 & Prior | 1,367                                         | 16   | 27   | 17                   | 10                 | 1,437                      | 1,446                            |

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|                                                |          |       |       |       |       |          |          |
|------------------------------------------------|----------|-------|-------|-------|-------|----------|----------|
| Total commercial mortgage-backed securities(1) | \$ 2,260 | \$ 69 | \$ 27 | \$ 17 | \$ 10 | \$ 2,383 | \$ 2,352 |
|------------------------------------------------|----------|-------|-------|-------|-------|----------|----------|

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**Table of Contents****Commercial Mortgage-Backed Securities at Fair Value Trading Account Assets Supporting Insurance Liabilities**

| Vintage                                     | March 31, 2011<br>Lowest Rating Agency Rating |       |       |                      |      | BB<br>and<br>below<br>Total<br>Fair Value | Total<br>December<br>31,<br>2010 |
|---------------------------------------------|-----------------------------------------------|-------|-------|----------------------|------|-------------------------------------------|----------------------------------|
|                                             | AAA                                           | AA    | A     | BBB<br>(in millions) |      |                                           |                                  |
| 2011                                        | \$ 0                                          | \$ 0  | \$ 0  | \$ 0                 | \$ 0 | \$ 0                                      | \$ 0                             |
| 2010                                        | 101                                           | 0     | 0     | 0                    | 0    | 101                                       | 64                               |
| 2009                                        | 5                                             | 0     | 0     | 0                    | 0    | 5                                         | 31                               |
| 2008                                        | 31                                            | 0     | 0     | 0                    | 0    | 31                                        | 31                               |
| 2007                                        | 153                                           | 0     | 0     | 0                    | 0    | 153                                       | 130                              |
| 2006                                        | 620                                           | 54    | 0     | 0                    | 0    | 674                                       | 670                              |
| 2005 & Prior                                | 1,401                                         | 16    | 27    | 12                   | 7    | 1,463                                     | 1,481                            |
| Total commercial mortgage-backed securities | \$ 2,311                                      | \$ 70 | \$ 27 | \$ 12                | \$ 7 | \$ 2,427                                  | \$ 2,407                         |

(1) Included in the table above as of March 31, 2011 are downgraded super senior securities with amortized cost of \$53 million in AA.

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

**Public Fixed Maturity Securities Trading Account Assets Supporting Insurance Liabilities**

| (1) (2)<br>NAIC Designation                 | March 31, 2011    |                                 |                                  | Fair<br>Value<br>(in millions) | December 31, 2010 |                                 |                                  | Fair<br>Value |
|---------------------------------------------|-------------------|---------------------------------|----------------------------------|--------------------------------|-------------------|---------------------------------|----------------------------------|---------------|
|                                             | Amortized<br>Cost | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) |                                | Amortized<br>Cost | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) |               |
| 1                                           | \$ 8,416          | \$ 277                          | \$ 89                            | \$ 8,604                       | \$ 7,836          | \$ 313                          | \$ 93                            | \$ 8,056      |
| 2                                           | 2,812             | 148                             | 44                               | 2,916                          | 2,768             | 160                             | 44                               | 2,884         |
| Subtotal High or Highest Quality Securities | 11,228            | 425                             | 133                              | 11,520                         | 10,604            | 473                             | 137                              | 10,940        |
| 3                                           | 293               | 10                              | 29                               | 274                            | 329               | 12                              | 30                               | 311           |
| 4                                           | 166               | 5                               | 33                               | 138                            | 178               | 3                               | 35                               | 146           |
| 5                                           | 59                | 1                               | 21                               | 39                             | 77                | 1                               | 30                               | 48            |
| 6                                           | 81                | 1                               | 46                               | 36                             | 67                | 0                               | 41                               | 26            |
| Subtotal Other Securities                   | 599               | 17                              | 129                              | 487                            | 651               | 16                              | 136                              | 531           |
| Total Public Fixed Maturities               | \$ 11,827         | \$ 442                          | \$ 262                           | \$ 12,007                      | \$ 11,255         | \$ 489                          | \$ 273                           | \$ 11,471     |

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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.

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

| (1) (2)<br>NAIC Designation                    | Amortized<br>Cost | March 31, 2011                  |                                  | Fair<br>Value<br>(in millions) | Amortized<br>Cost | December 31, 2010               |                                  | Fair<br>Value |
|------------------------------------------------|-------------------|---------------------------------|----------------------------------|--------------------------------|-------------------|---------------------------------|----------------------------------|---------------|
|                                                |                   | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) |                                |                   | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) |               |
| 1                                              | \$ 865            | \$ 64                           | \$ 11                            | \$ 918                         | \$ 805            | \$ 66                           | \$ 11                            | \$ 860        |
| 2                                              | 2,585             | 192                             | 9                                | 2,768                          | 2,584             | 187                             | 10                               | 2,761         |
| Subtotal High or Highest<br>Quality Securities | 3,450             | 256                             | 20                               | 3,686                          | 3,389             | 253                             | 21                               | 3,621         |
| 3                                              | 635               | 31                              | 3                                | 663                            | 656               | 27                              | 6                                | 677           |
| 4                                              | 115               | 3                               | 5                                | 113                            | 98                | 4                               | 5                                | 97            |
| 5                                              | 58                | 1                               | 4                                | 55                             | 54                | 1                               | 4                                | 51            |
| 6                                              | 10                | 0                               | 9                                | 1                              | 23                | 1                               | 6                                | 18            |
| Subtotal Other Securities                      | 818               | 35                              | 21                               | 832                            | 831               | 33                              | 21                               | 843           |
| Total Private Fixed Maturities                 | \$ 4,268          | \$ 291                          | \$ 41                            | \$ 4,518                       | \$ 4,220          | \$ 286                          | \$ 42                            | \$ 4,464      |

(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.

**Other Trading Account Assets**

Other trading account assets, at fair value consist primarily of certain financial instruments that contain an embedded derivative where we elected to classify the entire instrument as a trading account asset rather than bifurcate. These instruments are carried at fair value, with realized and unrealized gains and losses reported in Asset management fees and other income, and excluded from adjusted operating income. Interest and dividend income from these investments is reported in Net investment income, and is included in adjusted operating income. The following table sets forth the composition of our other trading account assets as of the dates indicated.

|                                             | March 31, 2011                   |               |                          |               | December 31, 2010                |               |                          |               |
|---------------------------------------------|----------------------------------|---------------|--------------------------|---------------|----------------------------------|---------------|--------------------------|---------------|
|                                             | Financial Services<br>Businesses |               | Closed Block<br>Business |               | Financial Services<br>Businesses |               | Closed Block<br>Business |               |
|                                             | Amortized<br>Cost                | Fair<br>Value | Amortized<br>Cost        | Fair<br>Value | Amortized<br>Cost                | Fair<br>Value | Amortized<br>Cost        | Fair<br>Value |
|                                             | (in millions)                    |               |                          |               |                                  |               |                          |               |
| Short-term investments and cash equivalents | \$ 4                             | \$ 4          | \$ 0                     | \$ 0          | \$ 3                             | \$ 3          | \$ 0                     | \$ 0          |
| Fixed maturities:                           |                                  |               |                          |               |                                  |               |                          |               |
| Corporate securities                        | 150                              | 149           | 110                      | 123           | 161                              | 150           | 110                      | 118           |
| Commercial mortgage-backed                  | 134                              | 103           | 0                        | 0             | 143                              | 103           | 0                        | 0             |
| Residential mortgage-backed                 | 282                              | 182           | 0                        | 0             | 301                              | 181           | 0                        | 0             |
| Asset-backed securities                     | 576                              | 540           | 35                       | 36            | 636                              | 589           | 36                       | 37            |
| Foreign government                          | 40                               | 41            | 0                        | 0             | 25                               | 25            | 0                        | 0             |
| U.S. government                             | 5                                | 5             | 0                        | 0             | 0                                | 0             | 0                        | 0             |

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|                                    |          |          |        |        |          |          |        |        |
|------------------------------------|----------|----------|--------|--------|----------|----------|--------|--------|
| Total fixed maturities             | 1,187    | 1,020    | 145    | 159    | 1,266    | 1,048    | 146    | 155    |
| Equity securities                  | 179      | 193      | 0      | 0      | 157      | 156      | 1      | 1      |
| Other                              | 12       | 12       | 0      | 0      | 12       | 13       | 0      | 0      |
| Total other trading account assets | \$ 1,382 | \$ 1,229 | \$ 145 | \$ 159 | \$ 1,438 | \$ 1,220 | \$ 147 | \$ 156 |

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As of March 31, 2011, on an amortized cost basis 84% of asset-backed securities classified as Other trading account assets attributable to the Financial Services Businesses have credit ratings of A or above, 11% have BBB and the remaining 5% have BB and below credit ratings. As of March 31, 2011, on an amortized cost basis 46% of asset-backed securities classified as Other trading account assets attributable to the Closed Block Business have credit ratings of A or above and the remaining 54% have BBB credit ratings.

**Commercial Mortgage and Other Loans***Investment Mix*

As of March 31, 2011 and December 31, 2010, we held approximately 10% and 11%, respectively, of our general account investments in commercial mortgage and other loans. This percentage is net of a \$422 million and \$435 million allowance for losses as of March 31, 2011 and December 31, 2010, respectively. The following table sets forth the composition of our commercial mortgage and other loans portfolio, before the allowance for losses, as of the dates indicated.

|                                                     | <b>March 31, 2011</b>                        |                                      | <b>December 31, 2010</b>                     |                                      |
|-----------------------------------------------------|----------------------------------------------|--------------------------------------|----------------------------------------------|--------------------------------------|
|                                                     | <b>Financial<br/>Services<br/>Businesses</b> | <b>Closed<br/>Block<br/>Business</b> | <b>Financial<br/>Services<br/>Businesses</b> | <b>Closed<br/>Block<br/>Business</b> |
|                                                     | <b>(in millions)</b>                         |                                      |                                              |                                      |
| Commercial and agricultural mortgage loans          | \$ 20,100                                    | \$ 8,797                             | \$ 19,796                                    | \$ 8,608                             |
| Uncollateralized loans                              | 2,083                                        | 0                                    | 1,467                                        | 0                                    |
| Residential property loans                          | 1,071                                        | 1                                    | 891                                          | 1                                    |
| Other collateralized loans                          | 94                                           | 0                                    | 80                                           | 0                                    |
| <b>Total commercial mortgage and other loans(1)</b> | <b>\$ 23,348</b>                             | <b>\$ 8,798</b>                      | <b>\$ 22,234</b>                             | <b>\$ 8,609</b>                      |

(1) Excluded from the table above are commercial mortgage loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage loans held outside the general account, see Invested Assets of Other Entities and Operations below.

We originate commercial and agricultural mortgage loans using a dedicated investment staff and a network of independent companies through our various regional offices. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our experience in real estate and mortgage lending.

Uncollateralized loans primarily represent reverse dual currency loans and corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third party guarantors.

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Other collateralized loans attributable to the Financial Services Businesses include \$73 million and \$75 million of collateralized consumer loans and \$4 million of loans collateralized by aviation assets as of March 31, 2011 and December 31, 2010, respectively.

### *Composition of Commercial and Agricultural Mortgage Loans*

The global financial markets have experienced stress since the second half of 2007, though the flow of capital to commercial real estate has improved dramatically starting in 2010. Portfolio lenders are actively originating loans on the highest quality properties in primary markets, resulting in an increase in the liquidity and availability of capital in the commercial mortgage loan market. For certain property types, the market

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fundamentals appear to be stabilizing, while other property types have farther to go in this recovery. In addition, the commercial banks are selectively more active and there has been an emergence of new loan origination activity by a handful of securitization lenders. These conditions have led to greater competition for portfolio lenders such as our general account, resulting in a tightening on loan pricing, though underwriting remains conservative. While there is still weakness in commercial real estate fundamentals, delinquency rates on our commercial mortgage loans remain relatively stable. For additional information see Realized Investment Gains and Losses.

Our commercial and agricultural mortgage 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 general account investments in commercial and agricultural mortgage loans by geographic region and property type as of the dates indicated.

|                                                       | March 31, 2011                |            |                       |            | December 31, 2010             |            |                       |            |
|-------------------------------------------------------|-------------------------------|------------|-----------------------|------------|-------------------------------|------------|-----------------------|------------|
|                                                       | 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 |
| Commercial and agricultural mortgage loans by region: |                               |            |                       |            |                               |            |                       |            |
| U.S. Regions:                                         |                               |            |                       |            |                               |            |                       |            |
| Pacific                                               | \$ 6,099                      | 30.3%      | \$ 2,964              | 33.7%      | \$ 5,845                      | 29.5%      | \$ 2,861              | 33.2%      |
| South Atlantic                                        | 4,656                         | 23.2       | 1,843                 | 21.0       | 4,612                         | 23.3       | 1,739                 | 20.2       |
| Middle Atlantic                                       | 3,129                         | 15.6       | 1,964                 | 22.3       | 3,122                         | 15.8       | 1,959                 | 22.8       |
| East North Central                                    | 1,567                         | 7.8        | 349                   | 4.0        | 1,607                         | 8.1        | 356                   | 4.1        |
| West South Central                                    | 1,555                         | 7.7        | 662                   | 7.5        | 1,541                         | 7.8        | 676                   | 7.9        |
| Mountain                                              | 1,073                         | 5.3        | 354                   | 4.0        | 1,081                         | 5.5        | 358                   | 4.2        |
| New England                                           | 609                           | 3.0        | 273                   | 3.1        | 623                           | 3.1        | 269                   | 3.1        |
| West North Central                                    | 517                           | 2.6        | 186                   | 2.1        | 516                           | 2.6        | 183                   | 2.1        |
| East South Central                                    | 318                           | 1.6        | 151                   | 1.7        | 317                           | 1.6        | 156                   | 1.8        |
| Subtotal-U.S.                                         | 19,523                        | 97.1       | 8,746                 | 99.4       | 19,264                        | 97.3       | 8,557                 | 99.4       |
| Asia                                                  | 271                           | 1.3        | 0                     | 0          | 224                           | 1.1        | 0                     | 0          |
| Other                                                 | 306                           | 1.6        | 51                    | 0.6        | 308                           | 1.6        | 51                    | 0.6        |
| Total commercial and agricultural mortgage loans      | \$ 20,100                     | 100.0%     | \$ 8,797              | 100.0%     | \$ 19,796                     | 100.0%     | \$ 8,608              | 100.0%     |

|                                                              | March 31, 2011                |            |                       |            | December 31, 2010             |            |                       |            |
|--------------------------------------------------------------|-------------------------------|------------|-----------------------|------------|-------------------------------|------------|-----------------------|------------|
|                                                              | 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 |
| Commercial and agricultural mortgage loans by property type: |                               |            |                       |            |                               |            |                       |            |
| Industrial buildings                                         | \$ 4,717                      | 23.5%      | \$ 1,874              | 21.3%      | \$ 4,627                      | 23.4%      | \$ 1,910              | 22.2%      |
| Retail                                                       | 4,320                         | 21.5       | 1,974                 | 22.4       | 4,276                         | 21.6       | 1,938                 | 22.5       |
| Office buildings                                             | 3,742                         | 18.6       | 1,988                 | 22.6       | 3,676                         | 18.5       | 1,900                 | 22.1       |
| Apartments/Multi-Family                                      | 2,996                         | 14.9       | 1,321                 | 15.0       | 3,004                         | 15.2       | 1,321                 | 15.3       |
| Other                                                        | 1,883                         | 9.4        | 497                   | 5.7        | 1,882                         | 9.5        | 452                   | 5.3        |
| Hospitality                                                  | 1,128                         | 5.6        | 404                   | 4.6        | 1,126                         | 5.7        | 407                   | 4.7        |

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|                                                  |           |        |          |        |           |        |          |        |
|--------------------------------------------------|-----------|--------|----------|--------|-----------|--------|----------|--------|
| Agricultural properties                          | 1,314     | 6.5    | 739      | 8.4    | 1,205     | 6.1    | 680      | 7.9    |
| Total commercial and agricultural mortgage loans | \$ 20,100 | 100.0% | \$ 8,797 | 100.0% | \$ 19,796 | 100.0% | \$ 8,608 | 100.0% |

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Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial and agricultural mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% percent indicate that the loan amount is greater than the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments.

As of March 31, 2011, our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses had a weighted average debt service coverage ratio of 1.74 times, and a weighted average loan-to-value ratio of 63%. As of March 31, 2011, approximately 96% of commercial and agricultural mortgage loans attributable to the Financial Services Businesses were fixed rate loans. As of March 31, 2011, our general account investments in commercial and agricultural mortgage loans attributable to the Closed Block Business had a weighted average debt service coverage ratio of 1.81 times and a weighted average loan-to-value ratio of 58%. As of March 31, 2011, approximately 99% of commercial and agricultural mortgage loans attributable to the Closed Block Business were fixed rate loans. For those general account commercial and agricultural mortgage loans attributable to the Financial Services Businesses that were originated in 2011, the weighted average debt service coverage ratio was 1.85 times and the weighted average loan-to-value ratio was 49%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial and agricultural mortgage loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for loan losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial and agricultural mortgage loan portfolio attributable to the Financial Services Businesses included approximately \$0.7 billion and \$0.6 billion of such loans as of March 31, 2011 and December 31, 2010, respectively, and our commercial and agricultural mortgage loan portfolio attributable to the Closed Block Business included approximately \$0.3 billion and \$0.2 billion of such loans as of March 31, 2011 and December 31, 2010, respectively. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of March 31, 2011, there are \$10 million of loan-specific reserves related to these loans attributable to the Financial Services Businesses and no reserves attributable to the Closed Block Business. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see [Invested Assets of Other Entities and Operations](#). The following tables set forth the gross carrying value of our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses and the Closed Block Business as of the dates indicated by loan-to-value and debt service coverage ratios.

**Table of Contents****Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Financial Services Businesses**

| Loan-to-Value Ratio                              | March 31, 2011<br>Debt Service Coverage Ratio |                 |                  |                  |                  |                      | Total<br>Commercial<br>and Agricultural<br>Mortgage<br>Loans |
|--------------------------------------------------|-----------------------------------------------|-----------------|------------------|------------------|------------------|----------------------|--------------------------------------------------------------|
|                                                  | Greater<br>than<br>2.0x                       | 1.8x to<br>2.0x | 1.5x to<br><1.8x | 1.2x to<br><1.5x | 1.0x to<br><1.2x | Less<br>than<br>1.0x |                                                              |
|                                                  | (in millions)                                 |                 |                  |                  |                  |                      |                                                              |
| 0%-49.99%                                        | \$ 3,168                                      | \$ 595          | \$ 1,050         | \$ 860           | \$ 268           | \$ 95                | \$ 6,036                                                     |
| 50%-59.99%                                       | 1,076                                         | 419             | 696              | 231              | 304              | 8                    | 2,734                                                        |
| 60%-69.99%                                       | 795                                           | 997             | 1,057            | 1,469            | 412              | 244                  | 4,974                                                        |
| 70%-79.99%                                       | 143                                           | 275             | 896              | 1,146            | 513              | 554                  | 3,527                                                        |
| 80%-89.99%                                       | 99                                            | 0               | 267              | 349              | 271              | 386                  | 1,372                                                        |
| 90%-100%                                         | 20                                            | 0               | 0                | 41               | 146              | 502                  | 709                                                          |
| Greater than 100%                                | 0                                             | 61              | 10               | 16               | 185              | 476                  | 748                                                          |
| Total commercial and agricultural mortgage loans | \$ 5,301                                      | \$ 2,347        | \$ 3,976         | \$ 4,112         | \$ 2,099         | \$ 2,265             | \$ 20,100                                                    |

**Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Closed Business**

| Loan-to-Value Ratio                              | March 31, 2011<br>Debt Service Coverage Ratio |                 |                  |                  |                  |                      | Total<br>Commercial<br>and Agricultural<br>Mortgage<br>Loans |
|--------------------------------------------------|-----------------------------------------------|-----------------|------------------|------------------|------------------|----------------------|--------------------------------------------------------------|
|                                                  | Greater<br>than<br>2.0x                       | 1.8x to<br>2.0x | 1.5x to<br><1.8x | 1.2x to<br><1.5x | 1.0x to<br><1.2x | Less<br>than<br>1.0x |                                                              |
|                                                  | (in millions)                                 |                 |                  |                  |                  |                      |                                                              |
| 0%-49.99%                                        | \$ 1,784                                      | \$ 314          | \$ 511           | \$ 439           | \$ 188           | \$ 53                | \$ 3,289                                                     |
| 50%-59.99%                                       | 359                                           | 101             | 360              | 136              | 50               | 49                   | 1,055                                                        |
| 60%-69.99%                                       | 306                                           | 310             | 547              | 677              | 283              | 43                   | 2,166                                                        |
| 70%-79.99%                                       | 105                                           | 11              | 423              | 455              | 236              | 274                  | 1,504                                                        |
| 80%-89.99%                                       | 34                                            | 0               | 86               | 79               | 71               | 63                   | 333                                                          |
| 90%-100%                                         | 0                                             | 0               | 0                | 56               | 98               | 37                   | 191                                                          |
| Greater than 100%                                | 0                                             | 0               | 128              | 0                | 7                | 124                  | 259                                                          |
| Total commercial and agricultural mortgage loans | \$ 2,588                                      | \$ 736          | \$ 2,055         | \$ 1,842         | \$ 933           | \$ 643               | \$ 8,797                                                     |

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The following table sets forth the breakdown of our commercial and agricultural mortgage loans by year of origination as of March 31, 2011.

| Year of Origination                              | March 31, 2011                |                                |                       |            |
|--------------------------------------------------|-------------------------------|--------------------------------|-----------------------|------------|
|                                                  | Financial Services Businesses |                                | Closed Block Business |            |
|                                                  | Gross Carrying Value          | % of Total<br>(\$ in millions) | Gross Carrying Value  | % of Total |
| 2011                                             | \$ 773                        | 3.8%                           | \$ 374                | 4.2%       |
| 2010                                             | 3,330                         | 16.6                           | 1,096                 | 12.5       |
| 2009                                             | 1,532                         | 7.6                            | 496                   | 5.6        |
| 2008                                             | 3,205                         | 15.9                           | 1,165                 | 13.2       |
| 2007                                             | 4,131                         | 20.6                           | 1,588                 | 18.1       |
| 2006 and prior                                   | 7,129                         | 35.5                           | 4,078                 | 46.4       |
| Total commercial and agricultural mortgage loans | \$ 20,100                     | 100.0%                         | \$ 8,797              | 100.0%     |

*Commercial Mortgage and Other Loan Quality*

Ongoing review of the portfolio is performed and loans are placed on watch list status based on a predefined set of criteria, where they are assigned to one of the following categories. We place loans on early warning status in cases where, based on our analysis of the loan's collateral, the financial situation of the borrower or tenants or other market factors, we believe a loss of principal or interest could occur. We classify loans as closely monitored when we determine there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where we have concluded that there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. As described below, in determining our allowance for losses we evaluate each loan on the watch list to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. In our international portfolios, we monitor delinquency in consumer loans on a pool basis and evaluate any servicing relationship and guarantees the same way we do for commercial mortgage loans.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan specific reserves for loans that are determined to be non-performing as a result of our loan review process, and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define a non-performing loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan specific portion of the loss allowance is based on our assessment as to ultimate collectability of loan principal and interest. 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. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above, as well as property type diversification, our past loan experience and other relevant factors. Together with historical credit migration and default statistics, the internal quality ratings are used to determine a default probability by loan. Historical loss severity statistics by property type are then applied to arrive at an estimate for incurred but not specifically identified losses. Historical credit migration, default and loss severity statistics are updated each quarter based on our actual loan experience, and are considered together with other relevant qualitative factors in making the final portfolio reserve calculations. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors. The following tables set forth the aging schedule of our general account investments in commercial mortgage and other loans attributable to the Financial Services Businesses and Closed Block Businesses.



**Table of Contents****Commercial Mortgage and Other Loans Financial Services Businesses**

|                                 |           | March 31, 2011 |            |                 |                   |            |                          |
|---------------------------------|-----------|----------------|------------|-----------------|-------------------|------------|--------------------------|
|                                 |           | 30-59 Days     | 60-89 Days | Greater Than 90 | Greater Than 90   | Total Past | Total Commercial         |
|                                 | Current   | Past Due       | Past Due   | Days-Accruing   | Days-Not Accruing | Due        | Mortgage and Other Loans |
|                                 |           |                |            | (in millions)   |                   |            |                          |
| Commercial mortgage loans:      |           |                |            |                 |                   |            |                          |
| Industrial                      | \$ 4,717  | \$ 0           | \$ 0       | \$ 0            | \$ 0              | \$ 0       | \$ 4,717                 |
| Retail                          | 4,303     | 0              | 12         | 0               | 5                 | 17         | 4,320                    |
| Office                          | 3,731     | 11             | 0          | 0               | 0                 | 11         | 3,742                    |
| Apartments/Multi-Family         | 2,995     | 0              | 0          | 0               | 1                 | 1          | 2,996                    |
| Hospitality                     | 1,057     | 0              | 0          | 0               | 72                | 72         | 1,129                    |
| Other                           | 1,839     | 7              | 0          | 0               | 36                | 43         | 1,882                    |
| Total commercial mortgage loans | 18,642    | 18             | 12         | 0               | 114               | 144        | 18,786                   |
| Agricultural property loans     | 1,282     | 0              | 3          | 0               | 29                | 32         | 1,314                    |
| Residential property loans      | 1,019     | 21             | 7          | 0               | 24                | 52         | 1,071                    |
| Other collateralized loans      | 94        | 0              | 0          | 0               | 0                 | 0          | 94                       |
| Uncollateralized loans          | 2,083     | 0              | 0          | 0               | 0                 | 0          | 2,083                    |
| Total                           | \$ 23,120 | \$ 39          | \$ 22      | \$ 0            | \$ 167            | \$ 228     | \$ 23,348                |

**Commercial Mortgage and Other Loans Closed Block Business**

|                                 |          | March 31, 2011 |            |                 |                   |            |                          |
|---------------------------------|----------|----------------|------------|-----------------|-------------------|------------|--------------------------|
|                                 |          | 30-59 Days     | 60-89 Days | Greater Than 90 | Greater Than 90   | Total Past | Total Commercial         |
|                                 | Current  | Past Due       | Past Due   | Days-Accruing   | Days-Not Accruing | Due        | Mortgage and Other Loans |
|                                 |          |                |            | (in millions)   |                   |            |                          |
| Commercial mortgage loans:      |          |                |            |                 |                   |            |                          |
| Industrial                      | \$ 1,874 | \$ 0           | \$ 0       | \$ 0            | \$ 0              | \$ 0       | \$ 1,874                 |
| Retail                          | 1,974    | 0              | 0          | 0               | 0                 | 0          | 1,974                    |
| Office                          | 1,966    | 22             | 0          | 0               | 0                 | 22         | 1,988                    |
| Apartments/Multi-Family         | 1,321    | 0              | 0          | 0               | 0                 | 0          | 1,321                    |
| Hospitality                     | 404      | 0              | 0          | 0               | 0                 | 0          | 404                      |
| Other                           | 480      | 0              | 0          | 0               | 17                | 17         | 497                      |
| Total commercial mortgage loans | 8,019    | 22             | 0          | 0               | 17                | 39         | 8,058                    |
| Agricultural property loans     | 739      | 0              | 0          | 0               | 0                 | 0          | 739                      |
| Residential property loans      | 1        | 0              | 0          | 0               | 0                 | 0          | 1                        |
| Other collateralized loans      | 0        | 0              | 0          | 0               | 0                 | 0          | 0                        |
| Uncollateralized loans          | 0        | 0              | 0          | 0               | 0                 | 0          | 0                        |
| Total                           | \$ 8,759 | \$ 22          | \$ 0       | \$ 0            | \$ 17             | \$ 39      | \$ 8,798                 |



**Table of Contents****Commercial Mortgage and Other Loans Financial Services Businesses**

|                                 | December 31, 2010 |                     |                     |                                              |                                   |                | Total Commercial Mortgage and Other Loans |
|---------------------------------|-------------------|---------------------|---------------------|----------------------------------------------|-----------------------------------|----------------|-------------------------------------------|
|                                 | Current           | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days- Accruing (in millions) | Greater Than 90 Days-Not Accruing | Total Past Due |                                           |
|                                 |                   |                     |                     |                                              |                                   |                |                                           |
| Commercial mortgage loans:      |                   |                     |                     |                                              |                                   |                |                                           |
| Industrial                      | \$ 4,627          | \$ 0                | \$ 0                | \$ 0                                         | \$ 0                              | \$ 0           | \$ 4,627                                  |
| Retail                          | 4,213             | 58                  | 0                   | 0                                            | 5                                 | 63             | 4,276                                     |
| Office                          | 3,655             | 21                  | 0                   | 0                                            | 0                                 | 21             | 3,676                                     |
| Apartments/Multi-Family         | 3,003             | 0                   | 0                   | 0                                            | 1                                 | 1              | 3,004                                     |
| Hospitality                     | 1,029             | 11                  | 10                  | 0                                            | 76                                | 97             | 1,126                                     |
| Other                           | 1,829             | 17                  | 0                   | 0                                            | 36                                | 53             | 1,882                                     |
| Total commercial mortgage loans | 18,356            | 107                 | 10                  | 0                                            | 118                               | 235            | 18,591                                    |
| Agricultural property loans     | 1,174             | 1                   | 0                   | 0                                            | 30                                | 31             | 1,205                                     |
| Residential property loans      | 847               | 20                  | 3                   | 0                                            | 21                                | 44             | 891                                       |
| Other collateralized loans      | 78                | 0                   | 0                   | 0                                            | 2                                 | 2              | 80                                        |
| Uncollateralized loans          | 1,467             | 0                   | 0                   | 0                                            | 0                                 | 0              | 1,467                                     |
| Total                           | \$ 21,922         | \$ 128              | \$ 13               | \$ 0                                         | \$ 171                            | \$ 312         | \$ 22,234                                 |

**Commercial Mortgage and Other Loans Closed Block Business**

|                                 | December 31, 2010 |                     |                     |                                             |                                   | Total Past Due | Total Commercial Mortgage and Other Loans |
|---------------------------------|-------------------|---------------------|---------------------|---------------------------------------------|-----------------------------------|----------------|-------------------------------------------|
|                                 | Current           | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days-Accruing (in millions) | Greater Than 90 Days-Not Accruing |                |                                           |
| Commercial mortgage loans:      |                   |                     |                     |                                             |                                   |                |                                           |
| Industrial                      | \$ 1,910          | \$ 0                | \$ 0                | \$ 0                                        | \$ 0                              | \$ 0           | \$ 1,910                                  |
| Retail                          | 1,934             | 4                   | 0                   | 0                                           | 0                                 | 4              | 1,938                                     |
| Office                          | 1,900             | 0                   | 0                   | 0                                           | 0                                 | 0              | 1,900                                     |
| Apartments/Multi-Family         | 1,321             | 0                   | 0                   | 0                                           | 0                                 | 0              | 1,321                                     |
| Hospitality                     | 399               | 0                   | 0                   | 0                                           | 8                                 | 8              | 407                                       |
| Other                           | 436               | 0                   | 0                   | 0                                           | 16                                | 16             | 452                                       |
| Total commercial mortgage loans | 7,900             | 4                   | 0                   | 0                                           | 24                                | 28             | 7,928                                     |
| Agricultural property loans     | 680               | 0                   | 0                   | 0                                           | 0                                 | 0              | 680                                       |
| Residential property loans      | 1                 | 0                   | 0                   | 0                                           | 0                                 | 0              | 1                                         |
| Other collateralized loans      | 0                 | 0                   | 0                   | 0                                           | 0                                 | 0              | 0                                         |
| Uncollateralized loans          | 0                 | 0                   | 0                   | 0                                           | 0                                 | 0              | 0                                         |
| Total                           | \$ 8,581          | \$ 4                | \$ 0                | \$ 0                                        | \$ 24                             | \$ 28          | \$ 8,609                                  |



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

|                                               | <b>March 31, 2011</b>                        |                                      | <b>December 31, 2010</b>                     |                                      |
|-----------------------------------------------|----------------------------------------------|--------------------------------------|----------------------------------------------|--------------------------------------|
|                                               | <b>Financial<br/>Services<br/>Businesses</b> | <b>Closed<br/>Block<br/>Business</b> | <b>Financial<br/>Services<br/>Businesses</b> | <b>Closed<br/>Block<br/>Business</b> |
|                                               | <b>(in millions)</b>                         |                                      |                                              |                                      |
| Allowance, beginning of year                  | \$ 333                                       | \$ 102                               | \$ 410                                       | \$ 124                               |
| Addition to/(release of) allowance for losses | (9)                                          | (5)                                  | (78)                                         | (22)                                 |
| Charge-offs, net of recoveries                | 0                                            | 0                                    | (1)                                          | 0                                    |
| Change in foreign exchange                    | 1                                            | 0                                    | 2                                            | 0                                    |
| Allowance, end of period                      | \$ 325                                       | \$ 97                                | \$ 333                                       | \$ 102                               |

As of March 31, 2011, the \$325 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included \$138 million related to loan specific reserves and \$187 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2010, the \$333 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included \$143 million related to loan specific reserves and \$190 million related to the portfolio reserve for probable incurred but not specifically identified losses.

As of March 31, 2011, the \$97 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included \$17 million related to loan specific reserves and \$80 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2010, the \$102 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included \$17 million related to loan specific reserves and \$85 million related to the portfolio reserve for probable incurred but not specifically identified losses. The decrease in the allowance for both the Financial Services Businesses and the Closed Block Business primarily reflects positive credit migration for certain mortgages.

**Equity Securities****Investment Mix**

The equity securities attributable to the Financial Services Businesses consist principally of investments in common and preferred stock of publicly-traded companies, as well as mutual fund shares and perpetual preferred securities, as discussed below. 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.

**Table of Contents****Equity Securities Financial Services Businesses**

|                                 | March 31, 2011 |                              |                               | December 31, 2010              |          |                              |                               |               |
|---------------------------------|----------------|------------------------------|-------------------------------|--------------------------------|----------|------------------------------|-------------------------------|---------------|
|                                 | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value<br>(in millions) | Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Public Equity</b>            |                |                              |                               |                                |          |                              |                               |               |
| Perpetual preferred stocks(1)   | \$ 348         | \$ 21                        | \$ 15                         | \$ 354                         | \$ 249   | \$ 19                        | \$ 14                         | \$ 254        |
| Non-redeemable preferred stocks | 11             | 4                            | 0                             | 15                             | 9        | 4                            | 0                             | 13            |
| Mutual fund common stocks(2)    | 1,620          | 491                          | 0                             | 2,111                          | 1,592    | 462                          | 0                             | 2,054         |
| Other common stocks             | 2,792          | 195                          | 40                            | 2,947                          | 1,267    | 112                          | 44                            | 1,335         |
| Total public equity             | 4,771          | 711                          | 55                            | 5,427                          | 3,117    | 597                          | 58                            | 3,656         |
| <b>Private Equity</b>           |                |                              |                               |                                |          |                              |                               |               |
| Perpetual preferred stocks(1)   | 767            | 15                           | 17                            | 765                            | 449      | 15                           | 16                            | 448           |
| Non-redeemable preferred stocks | 31             | 0                            | 0                             | 31                             | 15       | 0                            | 5                             | 10            |
| Common stock                    | 40             | 11                           | 1                             | 50                             | 12       | 10                           | 1                             | 21            |
| Total private equity(3)         | 838            | 26                           | 18                            | 846                            | 476      | 25                           | 22                            | 479           |
| Total equity                    | \$ 5,609       | \$ 737                       | \$ 73                         | \$ 6,273                       | \$ 3,593 | \$ 622                       | \$ 80                         | \$ 4,135      |

(1) These securities have characteristics of both debt and equity securities.

(2) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.

(3) Hedge funds and other alternative investments are included in Other long-term investments.

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:

**Equity Securities Closed Block Business**

|                                 | March 31, 2011 |                              |                               | December 31, 2010              |        |                              |                               |               |
|---------------------------------|----------------|------------------------------|-------------------------------|--------------------------------|--------|------------------------------|-------------------------------|---------------|
|                                 | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value<br>(in millions) | Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Public Equity</b>            |                |                              |                               |                                |        |                              |                               |               |
| Perpetual preferred stocks(1)   | \$ 133         | \$ 15                        | \$ 2                          | \$ 146                         | \$ 133 | \$ 11                        | \$ 4                          | \$ 140        |
| Non-redeemable preferred stocks | 0              | 0                            | 0                             | 0                              | 0      | 0                            | 0                             | 0             |
| Common stock                    | 2,800          | 913                          | 38                            | 3,675                          | 2,725  | 759                          | 37                            | 3,447         |
| Total public equity             | 2,933          | 928                          | 40                            | 3,821                          | 2,858  | 770                          | 41                            | 3,587         |
| <b>Private Equity</b>           |                |                              |                               |                                |        |                              |                               |               |
| Perpetual preferred stocks(1)   | 0              | 0                            | 0                             | 0                              | 0      | 0                            | 0                             | 0             |

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|                                 |          |        |       |          |          |        |       |          |
|---------------------------------|----------|--------|-------|----------|----------|--------|-------|----------|
| Non-redeemable preferred stocks | 3        | 0      | 0     | 3        | 6        | 0      | 0     | 6        |
| Common stock                    | 0        | 0      | 0     | 0        | 0        | 0      | 0     | 0        |
| Total private equity            | 3        | 0      | 0     | 3        | 6        | 0      | 0     | 6        |
| Total equity                    | \$ 2,936 | \$ 928 | \$ 40 | \$ 3,824 | \$ 2,864 | \$ 770 | \$ 41 | \$ 3,593 |

(1) These securities have characteristics of both debt and equity securities.

**Table of Contents***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 less than 20% for the following timeframes:

**Unrealized Losses from Equity Securities, Less than 20% Financial Services Businesses**

|                                                    | March 31, 2011 |                  | December 31, 2010 |                  |
|----------------------------------------------------|----------------|------------------|-------------------|------------------|
|                                                    | Amortized      | Gross Unrealized | Amortized         | Gross Unrealized |
|                                                    | Cost(1)        | Losses(1)        | Cost(1)           | Losses(1)        |
|                                                    | (in millions)  |                  |                   |                  |
| Less than three months                             | \$ 923         | \$ 20            | \$ 108            | \$ 2             |
| Three months or greater but less than six months   | 28             | 2                | 226               | 13               |
| Six months or greater but less than nine months    | 187            | 8                | 269               | 19               |
| Nine months or greater but less than twelve months | 131            | 8                | 20                | 3                |
| Greater than twelve months(2)                      | 303            | 19               | 302               | 18               |
| Total                                              | \$ 1,572       | \$ 57            | \$ 925            | \$ 55            |

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by less than 20%, using month-end valuations.

(2) Includes only perpetual preferred stocks as of March 31, 2011 and December 31, 2010.

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:

**Unrealized Losses from Equity Securities, Greater than 20% Financial Services Businesses**

|                                                    | March 31, 2011 |                  | December 31, 2010 |                  |
|----------------------------------------------------|----------------|------------------|-------------------|------------------|
|                                                    | Amortized      | Gross Unrealized | Amortized         | Gross Unrealized |
|                                                    | Cost(1)        | Losses(1)        | Cost(1)           | Losses(1)        |
|                                                    | (in millions)  |                  |                   |                  |
| Less than three months                             | \$ 9           | \$ 2             | \$ 13             | \$ 4             |
| Three months or greater but less than six months   | 5              | 2                | 24                | 8                |
| Six months or greater but less than nine months    | 0              | 0                | 2                 | 1                |
| Nine months or greater but less than twelve months | 0              | 0                | 1                 | 1                |
| Greater than twelve months(2)                      | 24             | 12               | 24                | 11               |
| Total                                              | \$ 38          | \$ 16            | \$ 64             | \$ 25            |

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- (1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by 20% or more, using month-end valuations.
- (2) Includes only perpetual preferred stocks as of March 31, 2011 and December 31, 2010.

The gross unrealized losses as of March 31, 2011 were primarily concentrated in the finance sector compared to December 31, 2010 where the gross unrealized losses were primarily concentrated in the finance and public utilities sectors. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more of \$16 million as of March 31, 2011 does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below cost by 50% or more. Perpetual preferred securities have characteristics of both debt and equity securities. Since we apply to these securities an impairment model similar to our fixed maturity securities, we have not recognized an other-than-temporary impairment on certain of these perpetual preferred securities that

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have been in a continuous unrealized loss position for twelve months or more as of March 31, 2011. We have not recognized the gross unrealized losses shown in the table above as other-than-temporary impairments. See Other-Than-Temporary Impairments of Equity Securities for a discussion of the factors we consider in making these determinations.

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 less than 20% for the following timeframes:

**Unrealized Losses from Equity Securities, Less than 20% Closed Block Business**

|                                                    | March 31, 2011 |            | December 31, 2010 |            |
|----------------------------------------------------|----------------|------------|-------------------|------------|
|                                                    | Amortized      | Gross      | Amortized         | Gross      |
|                                                    | Cost(1)        | Unrealized | Cost(1)           | Unrealized |
|                                                    |                | Losses(1)  |                   | Losses(1)  |
|                                                    | (in millions)  |            |                   |            |
| Less than three months                             | \$ 317         | \$ 15      | \$ 253            | \$ 10      |
| Three months or greater but less than six months   | 67             | 5          | 76                | 4          |
| Six months or greater but less than nine months    | 22             | 1          | 107               | 9          |
| Nine months or greater but less than twelve months | 60             | 6          | 56                | 4          |
| Greater than twelve months (2)                     | 32             | 2          | 32                | 4          |
| Total                                              | \$ 498         | \$ 29      | \$ 524            | \$ 31      |

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by less than 20%, using month-end valuations.

(2) Includes only perpetual preferred stocks as of March 31, 2011 and December 31, 2010.

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:

**Unrealized Losses from Equity Securities, Greater than 20% Closed Block Business**

|                                                    | March 31, 2011 |            | December 31, 2010 |            |
|----------------------------------------------------|----------------|------------|-------------------|------------|
|                                                    | Amortized      | Gross      | Amortized         | Gross      |
|                                                    | Cost(1)        | Unrealized | Cost(1)           | Unrealized |
|                                                    |                | Losses(1)  |                   | Losses(1)  |
|                                                    | (in millions)  |            |                   |            |
| Less than three months                             | \$ 20          | \$ 6       | \$ 12             | \$ 3       |
| Three months or greater but less than six months   | 5              | 2          | 11                | 3          |
| Six months or greater but less than nine months    | 3              | 2          | 10                | 4          |
| Nine months or greater but less than twelve months | 3              | 1          | 0                 | 0          |
| Greater than twelve months                         | 0              | 0          | 0                 | 0          |
| Total                                              | \$ 31          | \$ 11      | \$ 33             | \$ 10      |

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- (1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by 20% or more, using month-end valuations.

The gross unrealized losses as of March 31, 2011 were primarily concentrated in the public utilities, manufacturing, and finance services sectors compared to December 31, 2010 where the gross unrealized losses were primarily concentrated in the services, manufacturing and finance sectors. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more of \$11 million as of March 31, 2011 does not includes any gross unrealized losses on securities

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where the estimated fair value had declined and remained below cost by 50% or more. Perpetual preferred securities have characteristics of both debt and equity securities. Since we apply to these securities an impairment model similar to our fixed maturity securities, we have not recognized an other-than-temporary impairment on certain of these perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of March 31, 2011. We have not recognized the gross unrealized losses shown in the table above as other-than-temporary impairments. See *Other-Than-Temporary Impairments of Equity Securities* for a discussion of the factors we consider in making these determinations.

### *Other-Than-Temporary 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 consistently consider several factors including, but not limited to, the following:

the extent and the duration of the decline; including, but not limited to, the following general guidelines:

declines in value greater than 20%, maintained for six months or greater;

declines in value maintained for one year or greater; and

declines in value greater than 50%;

the reasons for the decline in value (issuer specific event, currency or market fluctuation);

our ability and intent to hold the investment for a period of time to allow for a recovery of value, including certain equity securities managed by independent third parties where we do not exercise management discretion concerning individual buy or sell decisions; and

the financial condition of and near-term prospects of the issuer.

We generally recognize other-than-temporary impairments for securities with declines in value greater than 50% maintained for six months or greater or with any decline in value maintained for one year or greater. In addition, in making our determinations we continue to analyze the financial condition and near-term prospects of the issuer, including an assessment of the issuer's capital position, and consider our ability and intent to hold the investment for a period of time to allow for a recovery of value.

For those securities that have declines in value that are deemed to be only temporary, we make an assertion as to our ability and intent to retain the security until recovery. Once identified, these securities are restricted from trading unless authorized based upon events that could not have been foreseen at the time we asserted our ability and intent to retain the security until recovery. Examples of such events include, but are not limited to, the deterioration of the issuer's creditworthiness, a major business combination or disposition, a change in regulatory requirements, certain other portfolio actions or other similar events. For those securities that have declines in value for which we cannot assert our ability and intent to retain until recovery, including certain equity securities managed by independent third parties where we do not exercise management

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discretion concerning individual buy or sell decisions, impairments are recognized as other-than-temporary regardless of the reason for, or the extent of, the decline. For perpetual preferred securities, which have characteristics of both debt and equity securities, we apply an impairment model similar to our fixed maturity securities, factoring in the position of the security in the capital structure and the lack of a formal maturity date. For additional discussion of our policies regarding other-than-temporary impairments of fixed maturity securities, see [Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities](#) above.

When we determine that there is an other-than-temporary impairment, we record a writedown to estimated fair value, which reduces the cost basis and is included in [Realized investment gains \(losses\)](#). See Note 2 to the Unaudited Interim Consolidated Financial Statements for additional information regarding our policies around other-than-temporary impairments for equity securities. See Note 13 to the Unaudited Interim Consolidated Financial Statements for information regarding the fair value methodology used for equity securities.

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Impairments of equity securities attributable to the Financial Services Businesses were \$13 million and \$66 million for the three months ended March 31, 2011 and 2010, respectively. Impairments of equity securities attributable to the Closed Block Business were \$9 million and \$3 million for the three months ended March 31, 2011 and 2010, respectively. For a further discussion of impairments, see Realized Investment Gains and Losses above.

### Other Long-Term Investments

Other long-term investments are comprised as follows:

|                                              | March 31, 2011                |                       | December 31, 2010             |                       |
|----------------------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
|                                              | Financial Services Businesses | Closed Block Business | Financial Services Businesses | Closed Block Business |
|                                              | (in millions)                 |                       |                               |                       |
| Joint ventures and limited partnerships:     |                               |                       |                               |                       |
| Real estate-related                          | \$ 320                        | \$ 384                | \$ 163                        | \$ 361                |
| Non-real estate-related                      | 1,782                         | 1,210                 | 1,070                         | 1,162                 |
| Real estate held through direct ownership(1) | 1,931                         | 0                     | 1,141                         | 1                     |
| Other(2)                                     | 681                           | 30                    | 614                           | 58                    |
| Total other long-term investments            | \$ 4,714                      | \$ 1,624              | \$ 2,988                      | \$ 1,582              |

(1) Primarily includes investment in an office building used by our Japanese insurance operations.

(2) Primarily includes derivatives and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 9 to the Unaudited Interim Consolidated Financial Statements.

### Invested Assets of Other Entities and Operations

The following table sets forth the composition of the investments held outside the general account in other entities and operations as of the dates indicated.

|                                                       | March 31, 2011 | December 31, 2010 |
|-------------------------------------------------------|----------------|-------------------|
|                                                       | (in millions)  |                   |
| Fixed Maturities:                                     |                |                   |
| Public, available for sale, at fair value             | \$ 2,044       | \$ 2,046          |
| Private, available for sale, at fair value            | 75             | 75                |
| Other trading account assets, at fair value           | 2,370          | 2,849             |
| Equity securities, available for sale, at fair value  | 13             | 13                |
| Commercial mortgage and other loans, at book value(1) | 1,236          | 1,423             |
| Other long-term investments                           | 1,621          | 1,601             |
| Short-term investments                                | 400            | 435               |
| Total investments                                     | \$ 7,759       | \$ 8,442          |

(1) Book value is generally based on unpaid principal balance net of any allowance for losses, the lower of cost or fair value, or fair value, depending on the loan.

The table above includes the invested assets of our brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet are not included.

**Table of Contents***Fixed Maturity Securities*

Fixed maturity securities primarily include investments related to our non-retail banking operations, where customer deposit liabilities are primarily supported by fixed maturity and short-term investments, in addition to cash and cash equivalents.

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to our other entities and operations.

**Fixed Maturity Securities Invested Assets of Other Entities and Operations**

| Industry(1)                 | March 31, 2011              |        |        |                      |                 | Total<br>Amortized<br>Cost | Total<br>Fair<br>Value |
|-----------------------------|-----------------------------|--------|--------|----------------------|-----------------|----------------------------|------------------------|
|                             | Lowest Rating Agency Rating |        |        |                      |                 |                            |                        |
|                             | AAA                         | AA     | A      | BBB<br>(in millions) | BB and<br>below |                            |                        |
|                             |                             |        |        |                      |                 |                            |                        |
| Residential mortgage-backed | \$ 1,009                    | \$ 8   | \$ 11  | \$ 0                 | \$ 12           | \$ 1,040                   | \$ 1,065               |
| Asset-backed securities     | 212                         | 25     | 2      | 17                   | 27              | 283                        | 308                    |
| Commercial mortgage-backed  | 147                         | 5      | 0      | 0                    | 7               | 159                        | 165                    |
| Corporate securities        | 53                          | 72     | 248    | 96                   | 23              | 492                        | 515                    |
| U.S. government             | 44                          | 0      | 19     | 0                    | 0               | 63                         | 64                     |
| State & municipal           | 0                           | 0      | 1      | 0                    | 0               | 1                          | 1                      |
| Foreign government          | 1                           | 0      | 0      | 0                    | 0               | 1                          | 1                      |
| Total                       | \$ 1,466                    | \$ 110 | \$ 281 | \$ 113               | \$ 69           | \$ 2,039                   | \$ 2,119               |

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

The table above includes the invested assets of our brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet are not included.

*Other Trading Account Assets*

Other trading account assets primarily include trading positions held by our derivatives trading operations and our global commodities group used in a dealer or broker capacity and derivative hedging positions used in a non-broker or non-dealer capacity. The derivative hedging positions used in a non-broker or non-dealer capacity primarily include a portfolio of derivatives primarily intended to hedge the risks related to certain products. Trading positions held by our derivatives trading operations used in a broker or dealer capacity include various foreign exchange instruments and commodities, primarily to facilitate transactions for our clients. We seek to use short security positions, forwards, futures, options and other derivatives to limit exposure to interest rate and other market risks associated with these positions. We also trade derivative financial instruments that allow our clients to manage exposure to interest rate, currency and other market risks. Our derivative

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transactions involve both exchange-listed and over-the-counter contracts. Our global commodities group provides advice, sales and trading on a global basis covering a wide variety of commodity, financial and foreign exchange futures, swap and forward contracts, including agricultural commodities, base and precious metals, major currencies, interest rate and stock indices. We act both as a broker, buying and selling exchange-listed contracts for our customers, and as a dealer, by entering into futures and security transactions as a principal. On April 6, 2011, we agreed to sell our global commodities business to Jefferies Group, Inc. The transaction is expected to close in June 2011. See Note 3 to our Unaudited Interim Consolidated Financial Statements for further details. Less than \$1 million of commercial mortgage-backed securities held outside the general account are classified as other trading account assets as of March 31, 2011 all of which have AAA credit ratings. An additional \$33 million of asset-backed securities held outside the general account as of March 31, 2011 are classified as other trading account assets, and all have AAA credit ratings.

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### *Commercial mortgage and other loans*

Our asset management operations include our commercial mortgage operations, which provide mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac. We also originate shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease-up. All else being equal, these interim loans are inherently more risky than those collateralized by properties that have already stabilized. Our interim loans are generally paid off through refinancing or the sale of the underlying collateral by the borrower. As of March 31, 2011 and December 31, 2010, the interim loans had an unpaid principal balance of \$1.2 billion and \$1.3 billion, respectively, and an allowance for losses or credit related market value losses totaling \$159 million and \$168 million, respectively. The weighted average loan-to-value ratio was 111% as of March 31, 2011 and 108% as of December 31, 2010, indicating that, in aggregate, the loan amount was greater than the collateral value, and the weighted average debt service coverage ratio was 1.33 times as of March 31, 2011 and 1.24 times as of December 31, 2010. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. As of March 31, 2011, we also hold \$38 million of commercial real estate held for sale related to foreclosed interim loans. The mortgage loans of our commercial mortgage operations are included in Commercial mortgage and other loans, with related derivatives and other hedging instruments primarily included in Other trading account assets and Other long-term investments.

### *Other long-term investments*

Other long-term investments primarily include proprietary investments made as part of our asset management operations. We make these proprietary investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other proprietary investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our asset management operations we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds.

**Table of Contents****Commercial Real Estate**

As discussed above, we have investment-based exposure to commercial real estate through a variety of investment vehicles. This exposure primarily results from our investments in commercial mortgage-backed securities and our whole-loan commercial mortgage holdings. For additional information regarding our exposure to commercial real estate, see the respective investment sections above within General Account Investments. Our invested asset exposure to commercial real estate as of the dates indicated includes the following, shown at their respective balance sheet carrying value:

|                                                                        | March 31, 2011                |                       | December 31, 2010             |                       |
|------------------------------------------------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
|                                                                        | Financial Services Businesses | Closed Block Business | Financial Services Businesses | Closed Block Business |
|                                                                        | (in millions)                 |                       |                               |                       |
| <b><u>General Account</u></b>                                          |                               |                       |                               |                       |
| Commercial Mortgage-Backed Securities, at fair value:                  |                               |                       |                               |                       |
| Fixed Maturity Securities                                              | \$ 10,106                     | \$ 3,739              | \$ 8,671                      | \$ 3,779              |
| Trading Account Assets Supporting Insurance Liabilities                | 2,427                         | 0                     | 2,407                         | 0                     |
| Other Trading Account Assets                                           | 103                           | 0                     | 103                           | 0                     |
| Commercial and Agricultural Mortgage Loans, at gross carrying value(1) | 20,100                        | 8,797                 | 19,796                        | 8,608                 |
| Real estate-related joint ventures and limited partnerships(2)         | 320                           | 384                   | 163                           | 361                   |
| Real estate held through direct ownership(3)                           | 1,931                         | 0                     | 1,141                         | 1                     |
| <b><u>Other Entities and Operations(4)</u></b>                         |                               |                       |                               |                       |
| Commercial Mortgage-Backed Securities, at fair value:                  |                               |                       |                               |                       |
| Fixed Maturity Securities                                              | \$ 165                        | \$ 0                  | \$ 167                        | \$ 0                  |
| Other Trading Account Assets                                           | 0                             | 0                     | 0                             | 0                     |
| Commercial and Agricultural Mortgage Loans, at gross carrying value(5) | 1,228                         | 0                     | 1,420                         | 0                     |
| Real estate-related joint ventures and limited partnerships(2)         | 565                           | 0                     | 534                           | 0                     |
| Real estate held through direct ownership(3)                           | 501                           | 0                     | 517                           | 0                     |

- (1) Carrying value is generally based on unpaid principal balance. Amounts are shown gross of allowance for losses of \$325 million and \$97 million as of March 31, 2011 and \$283 million and \$102 million as of December 31, 2010, attributable to the Financial Services Businesses and the Closed Block Business, respectively. Commercial and agricultural mortgage loans are shown net of the allowance for losses on the statement of financial position.
- (2) Balances accounted for under either the cost or equity method and include all real estate-related exposures, net of impairments.
- (3) Represents wholly-owned investment real estate which we have the intent to hold for the production of income as well as real estate held for sale. Real estate which we have the intent to hold for the production of income is carried at depreciated cost less any writedowns to fair value for impairment. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such.
- (4) Includes invested assets of brokerage, trading and 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.
- (5) Carrying value is generally based on unpaid principal balance, the lower of cost or fair value, or fair value. Amounts are shown gross of allowance for losses of \$120 million as of March 31, 2011 and December 31, 2010, respectively. Commercial and agricultural mortgage loans are shown net of the allowance for losses on the statement of financial position.

**Liquidity and Capital Resources****Overview**

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long term financial resources available to support the operation of our businesses, fund business growth, and provide a cushion to withstand adverse

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

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Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our quarterly planning process. We believe that cash flows from the sources of funds presently available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and its subsidiaries, including reasonably foreseeable contingencies.

We continue to refine our metrics for capital management. These refinements to the current framework, which is primarily based on statutory risk based capital measures, are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company. In addition, we continue to use an economic capital framework for making certain business decisions.

Similar to our planning and management process for liquidity, we use a Capital Protection Framework to ensure the availability of adequate capital under reasonably foreseeable contingencies. The Capital Protection Framework is used to assess potential capital needs arising from severe market related distress and sources of capital available to us to meet those needs. Potential sources include on-balance sheet capital, equity derivatives and other contingent sources of capital.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, could result in the imposition of new capital, liquidity and other requirements on Prudential Financial and its subsidiaries. See **Business Regulation** in our 2010 Annual Report on Form 10-K for information regarding the potential impact of the Dodd-Frank Act on the Company.

### **Acquisition of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities**

On February 1, 2011, we completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and certain other AIG subsidiaries pursuant to the stock purchase agreement dated September 30, 2010 with AIG. The total purchase price was approximately \$4,709 million, comprised of \$4,213 million in cash and \$496 million in the assumption of third-party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities.

To partially fund the acquisition purchase price, in November 2010, Prudential Financial completed a public offering and sale of 18,348,624 shares of Common Stock and \$1.0 billion of medium-term notes, resulting in aggregate proceeds of approximately \$2.0 billion. The remainder of the purchase price was funded with approximately \$2.2 billion of cash and short-term investments.

### **Agreement to Sell the Global Commodities Business to Jefferies Group, Inc.**

On April 6, 2011, we signed a definitive agreement to sell our Global Commodities Business to Jefferies Group, Inc., or Jefferies. The price will be approximately equal to the book value of the global commodities business as of the closing date, which was approximately \$430 million as of December 31, 2010. The transaction is expected to close in June 2011, following the receipt of regulatory approvals and the satisfaction of other customary conditions to closing.

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In the ordinary course of business, Prudential Financial has provided guarantees of the obligations of the global commodities business under commodity, financial and foreign exchange futures, swap and forward contracts. As of March 31, 2011, our exposure under these guarantees was approximately \$380 million. We have agreed to keep these guarantees outstanding for a period of 18 months following the closing, and Jefferies agreed to indemnify us for any amounts payable under the guarantees and, under certain conditions, to provide collateral for such obligation. In addition, in order to maintain continuity of funding for the global commodities business, we have agreed to temporarily continue to provide, at Jefferies' option, a line of credit to certain of the transferred global commodities subsidiaries for a period of 90 days following the closing in an amount of up to \$1 billion.

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The obligations of the transferred subsidiaries under the line of credit, including their obligation to repay drawn amounts no later than 90 days following the closing date, will be guaranteed by Jefferies and secured by certain assets of the transferred subsidiaries. We expect to fund any draws under the line of credit using cash on hand or proceeds from the alternative sources of liquidity described herein.

**Prudential Financial**

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and interest income from its subsidiaries, and cash and short-term investments. These sources of funds may be supplemented by Prudential Financial's access to the capital markets and credit facilities, as well as the Alternative Sources of Liquidity described below.

The primary uses of funds at Prudential Financial include servicing our debt and the payment of declared shareholder dividends, operating expenses and capital contributions and obligations to subsidiaries.

As of March 31, 2011, Prudential Financial had cash and short-term investments of \$3,365 million, a decrease of \$3,307 million from December 31, 2010, primarily resulting from loans made to our international insurance subsidiaries to fund the acquisition of Star and Edison Businesses, as discussed above. Included in the cash and short-term investments of Prudential Financial is \$492 million held in an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Also included are short-term investments of \$987 million, consisting primarily of government agency securities and money market funds.

The following table sets forth Prudential Financial's principal sources and uses of cash and short-term investments for the period indicated.

|                                                                      | <b>Three Months Ended<br/>March 31, 2011<br/>(in millions)</b> |
|----------------------------------------------------------------------|----------------------------------------------------------------|
| <b>Sources:</b>                                                      |                                                                |
| Repayment of funding agreements from Prudential Insurance            | \$ 237                                                         |
| Dividends and/or returns of capital from subsidiaries(1)             | 152                                                            |
| Proceeds from stock-based compensation and exercise of stock options | 100                                                            |
| Proceeds from short-term debt, net of repayments                     | 8                                                              |
| Total sources                                                        | 497                                                            |
| <b>Uses:</b>                                                         |                                                                |
| Capital contributions to subsidiaries(2)                             | 265                                                            |
| Net borrowings by subsidiaries(3)                                    | 3,208                                                          |
| Payment of income taxes                                              | 161                                                            |
| Shareholder dividends                                                | 41                                                             |
| Repayment of retail medium-term notes                                | 10                                                             |
| Other, net                                                           | 119                                                            |
| Total uses                                                           | 3,804                                                          |
| Net decrease in cash and short-term investments                      | \$ 3,307                                                       |

- (1) Includes dividends and/or returns of capital of \$90 million from asset management subsidiaries, \$17 million from international insurance and investment subsidiaries and \$45 million from other subsidiaries.
- (2) Includes capital contributions of \$229 million to international insurance and investment subsidiaries and \$36 million to asset management subsidiaries.
- (3) Includes net borrowings of \$2,875 million by our international insurance subsidiaries primarily to fund the acquisition of Star and Edison Businesses, net repayments of \$100 million by Prudential Arizona Reinsurance Term Company (previously funding statutory reserves required under Regulation XXX, as discussed in more detail in Financing Activities ) and net repayments of \$101 million by our asset management subsidiaries. The remainder represents net borrowings by other subsidiaries as well as net activity in our intercompany liquidity account described above.

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The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses (excluding accumulated other comprehensive income related to unrealized gains and losses on investments and pension/postretirement benefits), outstanding junior subordinated debt and outstanding capital debt of the Financial Services Businesses. Capital debt consists of borrowings that are 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. As shown in the table below, as of March 31, 2011, the Financial Services Businesses had \$40.4 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 this level of capital was consistent with the AA ratings targets of our regulated operating entities as of March 31, 2011.

|                                                                                                              | March 31, 2011<br>(in millions) |
|--------------------------------------------------------------------------------------------------------------|---------------------------------|
| Attributed equity (excluding unrealized gains and losses on investments and pension/postretirement benefits) | \$ 30,055                       |
| Junior subordinated debt (i.e. hybrid securities)                                                            | 1,519                           |
| Capital debt                                                                                                 | 8,798                           |
| Total capital                                                                                                | \$ 40,372                       |

We seek to capitalize all of our subsidiaries and businesses in accordance with their ratings targets, and we believe Prudential Financial's capitalization and use of financial leverage are consistent with those ratings targets. Management uses the ratio of capital debt to total capital (as such amounts are reflected in the table above) as a primary measure of the use of financial leverage. As of March 31, 2011, our capital debt to total capital ratio was 24.6%. The terms of our outstanding junior subordinated debt have certain features that result in their treatment as hybrid securities by the rating agencies. As a result, for purposes of calculating the capital debt to total capital ratio, 25% of our outstanding junior subordinated debt is treated as equity and the remaining 75% is treated as capital debt, based on Moody's current criteria for these types of hybrid securities, which is the most restrictive treatment among the rating agencies.

Our long-term senior debt rating targets for Prudential Financial are A for Standard & Poor's Rating Services, or S&P, Moody's Investors Service, Inc., or Moody's, and Fitch Ratings Ltd., or Fitch, and a for A.M. Best Company, or A.M. Best. Our financial strength rating targets for our domestic life insurance companies are AA/Aa/AA for S&P, Moody's and Fitch, respectively, and A+ for A.M. Best. Currently, some of our ratings are below these targets. For a description of material rating actions that have occurred from the beginning of 2011 through the date of this filing and a discussion of the potential impacts of ratings downgrades, see Ratings.

***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 (as described below), all dividends or other distributions paid by Prudential Insurance may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2010, Prudential Insurance's unassigned surplus was \$4,224 million, and it recorded applicable adjustments for cumulative unrealized investment gains of \$1,499 million. Prudential Insurance must give prior notification to the New Jersey Department of Banking and Insurance, or NJDOBI, or the Department, of its intent to pay any dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the prior calendar year's statutory surplus or (ii) the prior calendar year's statutory net gain from operations excluding realized investment gains and losses, the dividend is considered to be an extraordinary dividend and the prior



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approval of the Department is required for payment of the dividend. Prudential Insurance's statutory surplus as of December 31, 2010, was \$8,364 million and its statutory net gain from operations, excluding realized investment gains and losses, for the year ended December 31, 2010, was \$1,127 million. In addition to the 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 certain 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.

In April 2011, Prudential Insurance notified the Department of its intent to pay an ordinary dividend of \$527 million and requested the prior approval of the Department for the payment of an additional extraordinary dividend of \$704 million. There is no assurance that the Department will approve the extraordinary dividend, and the actual payment of any dividends is subject to declaration by the Board of Directors and could be impacted by market conditions and other factors.

As a result of Gibraltar Life's reorganization in 2001, in addition to regulatory restrictions, there are certain other restrictions that preclude Gibraltar Life from paying common stock dividends to Prudential Financial in the near term. We anticipate that it will be several years before these restrictions will allow Gibraltar Life to pay such dividends, which would include any amounts attributable to the Star and Edison Businesses. The ability of our asset management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint. The ability of each of our subsidiaries to pay dividends in 2011 depends on market conditions and other factors.

See *Liquidity and Capital Resources of Subsidiaries* below for additional details on the liquidity of our domestic insurance subsidiaries, international insurance subsidiaries and asset management subsidiaries.

### ***Alternative Sources of Liquidity***

Prudential Financial maintains an intercompany liquidity account that is designed to optimize 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. Additional longer term liquidity is available through inter-affiliate borrowing arrangements. Prudential Financial and certain of its subsidiaries also have access to bank facilities, as discussed under *Credit Facilities*, as well as the alternative sources of liquidity described below.

### ***Commercial Paper Programs***

Prudential Financial has a commercial paper program with an authorized issuance capacity of \$3.0 billion. Commercial paper borrowings under this program generally have been used to fund the working capital needs of Prudential Financial's subsidiaries and to provide short-term liquidity at Prudential Financial. As of March 31, 2011, Prudential Financial's outstanding commercial paper borrowings were \$291 million, representing an increase of \$8 million from December 31, 2010. As of March 31, 2011, the weighted average maturity of Prudential Financial's outstanding commercial paper was 47 days, of which 19% was overnight. The daily average commercial paper outstanding for the three months ended March 31, 2011 under this program was \$314 million. The weighted average interest rate on these borrowings was 0.44% and 0.39% for the three months ended March 31, 2011 and 2010, respectively.

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Prudential Funding, LLC, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program with an authorized issuance capacity of \$7.0 billion. Commercial paper borrowings under this program have generally served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance. As of March 31, 2011,

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Prudential Funding's outstanding commercial paper borrowings were \$1,168 million, representing an increase of \$294 million from December 31, 2010. As of March 31, 2011, the weighted average maturity of Prudential Funding's outstanding commercial paper was 12 days, of which 41% was overnight. The majority of the proceeds from outstanding commercial paper were utilized to fund the working capital needs of our affiliates and short-term cash flow timing mismatches. The daily average commercial paper outstanding for the three months ended March 31, 2011 under this program was \$995 million. The weighted average interest rates on these borrowings were 0.27% and 0.30% for the three months ended March 31, 2011 and 2010, respectively.

Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's positive tangible net worth at all times. Prudential Financial has also issued a subordinated guarantee covering Prudential Funding's commercial paper program.

While we continue to consider commercial paper one of our alternative sources of liquidity due to the low cost and efficient financing it provides, we have significantly reduced our reliance on commercial paper to fund our operations, and have developed plans that would enable us to further reduce, or if necessary eliminate, our commercial paper borrowings by accessing other sources of liquidity.

As of March 31, 2011, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling \$4.1 billion. These facilities can be used as backup liquidity for our commercial paper programs or for other general corporate purposes. There were no outstanding borrowings under these facilities as of March 31, 2011 or as of the date of this filing. For a further discussion of these lines of credit, see [Credit Facilities](#).

### *Asset-based Financing*

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, in order to earn spread income, to borrow funds, or to facilitate trading activity. These programs are driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our domestic insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments and fixed maturities, including mortgage- and asset-backed securities, with a weighted average life at time of purchase of two years or less. A portion of the asset-backed securities held in our short-term spread portfolios, including our enhanced short-term portfolio, are collateralized by sub-prime mortgages. Floating rate assets comprise the majority of our short-term spread portfolio. See [Realized Investment Gains and Losses](#) and [General Account Investments - Fixed Maturity Securities](#) for a further discussion of our asset-backed securities collateralized by sub-prime holdings, including details regarding those securities held in our enhanced short-term portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

As of March 31, 2011, our Financial Services Businesses had liabilities totaling \$4.126 billion under asset-based or secured financing programs, including \$2.599 billion representing securities sold under agreements to repurchase, \$1.522 billion representing cash collateral for loaned securities and \$5 million representing securities sold but not yet purchased. Of the \$4.126 billion for the Financial Services Businesses as of March 31, 2011, \$2.701 billion represents securities that may be returned to the company overnight requiring immediate return of the cash collateral, and the remainder generally has maturities ranging from two days to three months with a weighted average maturity of 12 days. The daily weighted average outstanding under such programs for the three months ended March 31, 2011 was \$4.153 billion. As of December 31, 2010, our Financial Services Businesses had liabilities totaling \$4.172 billion under such programs. In addition, as of March 31, 2011, our Financial Services Businesses had outstanding mortgage dollar rolls under which we are committed to repurchase \$16



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million of mortgage-backed securities, or to be announced ( TBA ) forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

As of March 31, 2011, our Closed Block Business had liabilities totaling \$3.926 billion under asset-based or secured financing programs, including \$3.151 billion representing securities sold under agreements to repurchase and \$775 million representing cash collateral for loaned securities. Of the \$3.926 billion for the Closed Block Business as of March 31, 2011, \$2.743 billion represents securities that may be returned to the company overnight requiring immediate return of the cash collateral, and the remainder generally has maturities ranging from two days to three months with a weighted average maturity of 56 days. The daily weighted average outstanding under such programs for the three months ended March 31, 2011 was \$3.955 billion. As of December 31, 2010, our Closed Block Business had liabilities totaling \$3.885 billion under such programs. In addition, as of March 31, 2011, the Closed Block Business had outstanding mortgage dollar rolls under which we are committed to repurchase \$428 million of TBA forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

As of March 31, 2011, our domestic insurance entities had assets eligible for the lending program of \$80.2 billion, of which \$7.8 billion were on loan. Taking into account market conditions and outstanding loan balances as of March 31, 2011, we believe approximately \$25.3 billion of the remaining eligible assets are readily lendable, of which approximately \$17.1 billion relates to the Financial Services Businesses; however, these amounts are subject to potential regulatory constraints. Further, changes in market conditions can affect the ability to lend the available assets.

As referenced above, these programs are typically limited to securities in demand that can be loaned at relatively low financing rates. As such, we believe there is unused capacity available through these programs. Holdings of cash and cash equivalent investments in these short-term spread portfolios allow for further flexibility in sizing the portfolio to better match available financing. Current conditions in both the financing and investment markets are continuously monitored in order to appropriately manage the cost of funds, investment spreads, asset/liability duration matching and liquidity.

### *Federal Home Loan Bank of New York*

Prudential Insurance is a member of the Federal Home Loan Bank of New York, or FHLBNY. Membership allows Prudential Insurance access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements that can be used as an alternative source of liquidity. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings, depending on the type of asset pledged. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if Prudential Insurance's financial strength ratings decline below A/A2/A Stable by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from NJDOBI regarding Prudential Insurance's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY.

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance's statutory net admitted assets as of December 31, 2010, the 5% limitation equates to a maximum amount of pledged assets of \$7.4 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately \$6.1 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at Prudential Insurance.



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As of March 31, 2011, we had pledged qualifying assets with a fair value of \$2.7 billion, which supported outstanding collateralized advances of \$1.0 billion and collateralized funding agreements of \$1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to \$5.5 billion as of March 31, 2011.

As of March 31, 2011, \$275 million of the FHLB NY outstanding advances is reflected in Short-term debt and matures in December 2011 and the remaining \$725 million is in Long-term debt and matures in December 2015. As of March 31, 2011, \$650 million of the outstanding FHLB NY proceeds were used to support the operating needs of our businesses, and \$350 million were used to purchase investments, including the FHLB NY activity-based stock. The funding agreements issued to the FHLB NY, which are reflected in Policyholders' account balances, have priority claim status above debt holders of Prudential Insurance. These funding agreements currently serve as a substitute funding source for a product of our Retirement segment, which earns investment spread that was previously funded by retail medium-term notes issued by Prudential Financial.

### *Federal Home Loan Bank of Boston*

Prudential Retirement Insurance and Annuity Company, or PRIAC, became a member of the Federal Home Loan Bank of Boston, or FHLBB, in December 2009. Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. PRIAC's membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. As of March 31, 2011, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to \$2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of March 31, 2011, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately \$1.1 billion.

Prudential Bank & Trust, FSB is also a member of FHLBB. As of March 31, 2011, Prudential Bank & Trust, FSB had advances of \$139 million outstanding under this facility.

## **Liquidity and Capital Resources of Subsidiaries**

### *Domestic Insurance Subsidiaries*

#### *General Liquidity*

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 operations are integral to the overall liquidity of those operations. We segment our investment portfolios

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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. We use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims. The impact of Prudential Funding's financing capacity on liquidity, as discussed more fully under Alternative Sources of Liquidity, is considered in the internal liquidity measures of the domestic insurance operations.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. The results are affected substantially by the overall asset type and quality of our investments.

**Table of Contents***Cash Flow*

The principal sources of liquidity for 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 and annuity operations, as well as internal and external borrowings. 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 and annuity 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, policyholder perceptions of our financial strength, and the relative safety of competing products, each of which could lead to reduced cash inflows or increased cash outflows. In addition, market volatility can impact the level of capital required to support our businesses, particularly in our annuity business. 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 or bond insurers, our counterparties' willingness to extend repurchase and/or securities lending arrangements, commitments to invest 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 when 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, 2011   |            | December 31, 2010 |            |
|--------------------------------------------------------------------------------------------------------------------|------------------|------------|-------------------|------------|
|                                                                                                                    | Amount           | % of Total | Amount            | % of Total |
|                                                                                                                    | (\$ in millions) |            |                   |            |
| Not subject to discretionary withdrawal provisions                                                                 | \$ 37,480        | 47%        | \$ 37,505         | 47%        |
| Subject to discretionary withdrawal, with adjustment:                                                              |                  |            |                   |            |
| With market value adjustment                                                                                       | 21,136           | 26         | 21,105            | 26         |
| At market value                                                                                                    | 1,989            | 2          | 1,876             | 2          |
| At contract value, less surrender charge of 5% or more                                                             | 2,314            | 3          | 2,471             | 3          |
| Subtotal                                                                                                           | 62,919           | 78         | 62,957            | 78         |
| Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5% | 17,456           | 22         | 17,404            | 22         |
| Total annuity reserves and deposit liabilities                                                                     | \$ 80,375        | 100%       | \$ 80,361         | 100%       |

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. Our annuity reserves with guarantee features may be less susceptible to withdrawal than historical experience indicates, due to the perceived value of these guarantee features to policyholders as a result of market declines in recent years. Annuity benefits and guaranteed investment withdrawals under group annuity contracts are generally not subject to early withdrawal. Gross account withdrawals for our domestic insurance operations' products were consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our

overall liquidity.

**Table of Contents***Liquid Assets*

Liquid assets include cash, cash equivalents, short-term investments, fixed maturities that are not designated as held to maturity and public equity securities. As of both March 31, 2011 and December 31, 2010, our domestic insurance operations had liquid assets of \$138.5 billion, which includes a portion financed with asset-based financing. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$5.1 billion and \$5.8 billion as of March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011, \$117.9 billion, or 91.1%, of the fixed maturity investments that are not designated as held-to-maturity within our domestic insurance company general account portfolios were considered high or highest quality based on NAIC or equivalent rating. The remaining \$11.5 billion, or 8.9%, of these fixed maturity investments were considered other than high or highest quality based on NAIC or equivalent rating. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity 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 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 increased borrowing costs or realized investment gains or losses affecting results of operations. For a further discussion of realized investment gains and losses, see *Realized Investment Gains and Losses and General Account Investments' Realized Investment Gains and Losses*. 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, investing and financing activities, respectively, in our financial statements. Instead of selling investments at depressed market prices externally, in order to preserve economic value (including tax attributes), we may also sell investments from one subsidiary to another at fair market value or transfer investments internally between businesses within the same subsidiary, subject to applicable regulatory constraints.

*Capital*

The Risk Based Capital, or RBC, ratio is a primary measure by which we evaluate the capital adequacy of Prudential Insurance and our other domestic life insurance subsidiaries, which includes businesses in both the Financial Services Businesses and the Closed Block Business. We manage Prudential Insurance's and our other domestic life insurance subsidiaries' RBC ratios to a level consistent with their ratings targets. RBC is determined by statutory guidelines and formulas that consider, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of an insurer's statutory capitalization. Prudential Insurance reported an RBC ratio of 533% as of December 31, 2010. The RBC ratio is an annual calculation; however, based upon March 31, 2011 amounts, we estimate that the RBC ratios for Prudential Insurance and our other domestic life insurance subsidiaries would exceed the minimum level required by applicable insurance regulations. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities.

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The level of statutory capital of our domestic life insurance subsidiaries can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded and credit quality migration of the investment portfolio, among other items. Further, the recapture of business subject to reinsurance arrangements due to defaults by, or credit quality migration affecting, the reinsurers could result in higher required statutory capital levels. The level of statutory capital of our domestic life insurance subsidiaries is also affected by statutory accounting rules, which are subject to change by insurance regulators.

During 2010, as part of our Capital Protection Framework, we developed a broad view of the impact of market distress on the statutory capital of the Company. Beginning in the second quarter of 2010, we have entered into equity index-linked derivative transactions that are designed to mitigate the impact of a severe equity market stress event on statutory capital. The program focuses on tail risk in order to protect our capital in a cost-effective manner under stress scenarios. We assess the composition of our hedging program on an ongoing basis, and we may change it from time to time based on our evaluation of the Company's risk position or other factors.

In addition to hedging the equity market exposure as mentioned above, we also manage certain risks associated with our variable annuity products through our hedging programs, as described under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities. In our living benefits hedging program, we purchase equity options and futures as well as interest rate derivatives to hedge certain optional living benefit features accounted for as embedded derivatives against changes in equity markets, interest rates, and market volatility. Historically, our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives. In the third quarter of 2010, we revised our hedging strategy as, in the low interest rate environment, we do not believe the GAAP value of the embedded derivative liability to be an appropriate measure for determining the hedge target. Our new hedge target continues to be grounded in a GAAP/capital markets valuation framework but incorporates modifications to the risk-free return assumption to account for the fact that the underlying customer separate account funds, which support these living benefits, are invested in assets that contain risk. Consistent with sound risk management practices, we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. The capital impact of potentially adverse outcomes resulting from our variable annuities hedging strategy is also incorporated in our Capital Protection Framework.

We reinsure variable annuity living benefit guarantees to our offshore captive reinsurance company. We satisfy the reinsurance reserve credit requirements by funding statutory reserve credit trusts. Reinsurance credit reserve requirements can move materially in either direction due to changes in equity markets and interest rates, actuarial assumptions and other factors. Higher reinsurance credit reserve requirements would necessitate depositing additional assets in the statutory reserve credit trusts, while lower reinsurance credit reserve requirements would allow assets to be removed from the statutory reserve credit trusts. Favorable equity market conditions and higher interest rates in the first quarter of 2011 led to a decline in our need to fund the captive reinsurance trusts by an amount of \$63 million.

We review the reinsurance reserve credit requirements and the value of the reinsurance trust assets on a quarterly basis. If we determine that the value of the reinsurance trust assets are not sufficient to meet the reinsurance reserve credit requirements, we would expect to satisfy those additional needs through a combination of funding the reinsurance credit trusts with available cash, loans from Prudential Financial and/or affiliates and assets pledged to our offshore captive reinsurance company under hedging positions related to our living benefit features. We also continue to evaluate other options to address reserve credit needs such as obtaining letters of credit.

**Table of Contents*****International Insurance and Investments Subsidiaries***

On February 1, 2011, we completed our acquisition of the Star and Edison Businesses. Gibraltar Life and Prudential of Japan each contributed \$400 million to payment of the acquisition purchase price, with the remaining funding provided by Prudential Financial and other subsidiaries. Although these contributions will reduce local solvency margin ratios in Gibraltar and Prudential of Japan, the solvency margins for these companies remain in excess of our targets. The contributions did not materially impact Gibraltar Life's or Prudential of Japan's liquidity as their investment portfolios were positioned to provide the funding.

Star and Edison solvency margin ratios at acquisition are estimated to be in excess of our solvency margin targets and will continue to be managed to capitalization levels consistent with our AA ratings targets. We believe the liquidity profiles of Star and Edison are sufficient to meet their obligations, including under reasonably foreseeable stress scenarios. We seek to further enhance the liquidity and capital profile of Star and Edison by repositioning their asset portfolios.

In our international insurance operations, liquidity is provided through operating cash flows from ongoing operations as well as portfolios of liquid assets. In managing the liquidity, and the interest and credit risk profiles of our international 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. We also 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 stress scenarios. We believe that ongoing operations and the liquidity profile of our international insurance assets provide sufficient liquidity under reasonably foreseeable stress scenarios.

The following table sets forth our international insurance subsidiaries portfolio of liquid assets, including cash and short-term investments, and fixed maturity investments, other than those designated as held to maturity, by NAIC or equivalent rating as of the dates indicated.

|                                    | Prudential<br>of<br>Japan | Gibraltar<br>Life | March 31, 2011<br>Star and<br>Edison<br>Businesses<br>(in billions) | All<br>Other(1) | Total    | December 31,<br>2010 |
|------------------------------------|---------------------------|-------------------|---------------------------------------------------------------------|-----------------|----------|----------------------|
| Cash and Short-term investments    | \$ 0.8                    | \$ 1.6            | \$ 3.7                                                              | \$ 0.8          | \$ 6.9   | \$ 3.2               |
| Fixed maturity investments:        |                           |                   |                                                                     |                 |          |                      |
| High or highest quality(2)         | 24.2                      | 37.0              | 35.6                                                                | 10.7            | 107.5    | 68.3                 |
| Other than high or highest quality | 0.3                       | 0.7               | 0.2                                                                 | 0.2             | 1.4      | 1.0                  |
| Subtotal                           | 24.5                      | 37.7              | 35.8                                                                | 10.9            | 108.9    | 69.3                 |
| Total                              | \$ 25.3                   | \$ 39.3           | \$ 39.5                                                             | \$ 11.7         | \$ 115.8 | \$ 72.5              |

(1) Represents our international insurance operations, excluding Japan.

(2) Of the \$107.5 billion of fixed maturity investments that are not designated as held to maturity and considered high or highest quality as of March 31, 2011, \$66 billion, or 61%, were invested in government or government agency bonds.

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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. The following table sets forth the total general account insurance-related liabilities (other than dividends payable to policyholders) of our international insurance subsidiaries, as of the periods indicated.

|                                                                                                     | March 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------------------------------------------------------------------------|-------------------|----------------------|
|                                                                                                     | (in billions)     |                      |
| Prudential of Japan                                                                                 | \$ 32.3           | \$ 32.2              |
| Gibraltar Life                                                                                      | 46.2              | 42.1                 |
| Star and Edison Businesses                                                                          | 43.8              | 0                    |
| All other international insurance subsidiaries                                                      | 9.2               | 10.1                 |
| Total general account insurance-related liabilities (other than dividends payable to policyholders) | \$ 131.5          | \$ 84.4              |

Prudential of Japan did not have a material amount of general account annuity reserves or deposit liabilities subject to discretionary withdrawal as of March 31, 2011 and December 31, 2010. 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.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin requirements for insurance companies. All of our international insurance subsidiaries have solvency margins in excess of the minimum levels required by the applicable regulatory authorities. These solvency margins are also a primary measure by which we evaluate the capital adequacy of our international insurance operations. We manage these solvency margins to a capitalization level consistent with our AA ratings target. Maintenance of our solvency ratios at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer's financial strength.

The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements that will revise risk charges for certain assets and change the manner in which an insurance company's core capital is calculated. These changes are effective for the fiscal year ending March 31, 2012; however, it is anticipated that companies may begin to publicly disclose prior to that date both the old and new solvency margin calculations. While we believe that the solvency margins of our Japanese insurance subsidiaries would continue to satisfy regulatory requirements and our internal targets under the new regime, it is possible that a reduction in our reported ratios arising from the new requirements could affect customer perception of our financial strength. The capital requirements in Korea and Taiwan are also undergoing change.

On March 11, 2011, Japan experienced a massive earthquake followed by a tsunami which caused extensive damage and loss of life. We estimate that the impact of claims as a result of these events will not have a material impact on the capital and liquidity positions of our operating companies. In addition, we have not experienced and do not expect a significant impact to the valuation of our investments or our ability to operate our Japanese businesses as a result of these events.

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, including the strategies discussed in Results of Operations for Financial Services Businesses by Segment International Insurance Division. These hedging strategies include both internal and external hedging programs.



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The internal hedges are between a subsidiary of Prudential Financial and certain of our yen-based entities and serve to hedge the value of U.S. dollar denominated investments held on the books of these yen-based entities. Cash settlements from these hedging activities result in cash flows between Prudential Financial and these yen-based subsidiaries. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During the first quarter of 2011, Prudential Financial funded \$66 million of cash settlements related to the internal hedge program, which were paid to the yen-based subsidiaries. As of March 31, 2011, the market value of the internal hedges was a liability of \$1,041 million owed to the yen-based subsidiaries of Prudential Financial. Absent any changes in forward exchange rates from those expected as of March 31, 2011, the \$1,041 million internal hedge liability represents the present value of the net cash flows from Prudential Financial to these entities over the life of the hedging instruments, up to 30 years. A significant yen appreciation over an extended period of time, and in excess of the forward exchange rates, would result in higher net cash outflows from Prudential Financial in excess of our historical experience.

Our external hedges primarily serve to hedge the equity investments in certain subsidiaries and future income of most foreign subsidiaries. The external hedges are between a subsidiary of Prudential Financial and external parties. Cash settlements on these activities result in cash flows between Prudential Financial and the external parties and are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During the first quarter of 2011, Prudential Financial paid \$46 million of net cash flows for international insurance-related external hedge settlements. As of March 31, 2011, the net liability related to external foreign currency hedges was \$390 million. A significant appreciation in yen and other foreign currencies could result in net cash outflows in excess of our liability. During 2009 and 2010, we terminated our hedges of the U.S. GAAP equity exposure of all of our other foreign operations, excluding our Japan and Taiwan insurance operations, due to a variety of considerations, including a desire to limit the potential for cash settlement outflows that would result from strengthening foreign currencies.

In our international investments operations, liquidity is provided through asset management fees as well as commission revenue. The principal uses of liquidity include general and administrative expenses and distributions of dividends and returns of capital. As with our domestic operations, the primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe cash flows from our international investments subsidiaries are adequate to satisfy the current liquidity requirements of their operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

On April 6, 2011, we signed a definitive agreement to sell our Global Commodities Business to Jefferies Group, Inc. The price will be equal to the book value of the global commodities business as of the closing date, which was approximately \$430 million as of December 31, 2010. The transaction is expected to close in June 2011, following the receipt of regulatory approvals and the satisfaction of other customary conditions to closing.

### ***Asset Management Subsidiaries***

Our asset management businesses, which include real estate, public and private fixed income and public equity asset management, as well as commercial mortgage origination and servicing, and retail investment products, such as mutual funds and other retail services, are largely unregulated from the standpoint of dividends and distributions. Our asset management subsidiaries through which we conduct these businesses generally do not have restrictions on the amount of distributions they can make, and the fee-based asset management business can provide a relatively stable source of cash flow to Prudential Financial.

The principal sources of liquidity for our fee-based asset management businesses include asset management fees and commercial mortgage servicing fees. The principal uses of liquidity include general and administrative expenses and distribution of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by

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conditions and our investment management performance. We believe the cash flows from our fee-based asset management businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our proprietary investments and interim loans held in our asset management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Funding and Prudential Financial. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults.

In April 2009, our commercial mortgage origination and servicing business received approval to participate in a Fannie Mae alternative delivery program known as ASAP Plus (As Soon as Pooled delivery). Our approval limit for outstanding balances on ASAP Plus is presently \$350 million. This program allows us to assign a qualified Fannie Mae loan trade commitment to Fannie Mae as early as the next business day after a loan closes, and receive 99% of the loan purchase price from Fannie Mae. The program does not eliminate the need to provide temporary warehouse financing, but does significantly reduce the duration of funding requirements for eligible Fannie Mae originated loans from the normal delivery cycle of two to four weeks down to as little as one to two days. There was no balance outstanding on this program as of March 31, 2011.

Certain real estate funds under management are held for the benefit of clients in insurance company separate accounts sponsored by Prudential Insurance. In the normal course of business, these separate accounts enter into purchase commitments which include commitments to purchase real estate, invest in future real estate partnerships, and/or fund additional construction or other expenditures on previously-acquired real estate investments. Certain purchases of real estate are contingent on the developer's development of the real estate according to plans and specifications outlined in a pre-sale agreement or the property achieving a certain level of leasing. Purchase commitments are typically entered into by Prudential Insurance on behalf of the particular separate account and, upon acquisition, are titled either in the name of Prudential Insurance or an LLC subsidiary formed for that purpose. In certain cases, the commitments specify that recourse on the obligation is limited to the assets of the separate account.

At March 31, 2011 and December 31, 2010, total outstanding purchase commitments were \$4.8 billion and \$5.3 billion, respectively. The decrease in total outstanding purchase commitments was primarily driven by debt repayments funded from investor capital contributions and property sales. The following is a summary of the outstanding purchase commitments for these separate account portfolios as of March 31, 2011. Off-balance sheet commitments include capital commitments in respect of undisbursed loan proceeds and commitments that have not yet substantially satisfied pre-conditions and are considered contingent liabilities. On-balance sheet commitments represent obligations in respect of disbursed loan proceeds which have substantially satisfied pre-conditions of the commitments.

|                                                 | Remaining<br>2011 | Contractual Maturity Date |               |        |
|-------------------------------------------------|-------------------|---------------------------|---------------|--------|
|                                                 |                   | 2012                      | After<br>2012 | Total  |
|                                                 |                   | (in millions)             |               |        |
| Off-Balance Sheet Commitments:                  |                   |                           |               |        |
| Recourse to Prudential Insurance                | \$ 574            | \$ 340                    | \$ 25         | \$ 939 |
| Recourse limited to assets of separate accounts | 450               | 122                       | 20            | 592    |
| Total Off-Balance Sheet Commitments             | 1,024             | 462                       | 45            | 1,531  |
| On-Balance Sheet Commitments:                   |                   |                           |               |        |
| Recourse to Prudential Insurance                | 1,025             | 155                       | 70            | 1,250  |
| Recourse limited to assets of separate accounts | 1,337             | 645                       | 14            | 1,996  |

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|                                    |          |          |        |          |
|------------------------------------|----------|----------|--------|----------|
| Total On-Balance Sheet Commitments | 2,362    | 800      | 84     | 3,246    |
| Total Commitments                  | \$ 3,386 | \$ 1,262 | \$ 129 | \$ 4,777 |

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The contractual maturity dates of some of the outstanding purchase commitments may accelerate upon a failure to maintain required loan-to-value ratios, failure of Prudential Insurance to maintain required ratings or failure to satisfy other financial covenants.

Some separate accounts have also entered into syndicated credit facilities providing for borrowings in the aggregate amount of up to \$0.9 billion. As of March 31, 2011, there were no outstanding borrowings under these credit facilities. These facilities also include loan-to-value ratio requirements and other financial covenants. Recourse on obligations under these facilities is limited to the assets of the applicable separate account.

As of March 31, 2011, these separate account portfolios had combined gross and net asset values of \$26.5 billion and \$15.1 billion, respectively.

At the time of maturity of a commitment obligation, Prudential Insurance often endeavors to negotiate extensions, refinancings or other solutions with creditors. Management believes that the separate accounts have sufficient resources to ultimately meet their obligations. However, there is a risk that the separate accounts may not be able to timely fund all maturing obligations from regular sources such as asset sales, operating cash flow, deposits from clients, debt refinancings or from the above-mentioned portfolio level credit facilities. In cases where the separate account is not able to fund maturing obligations, Prudential Insurance may be called upon or required to provide interim funding solutions. To date, Prudential Insurance has not been required to provide any such funding.

As of March 31, 2011 and December 31, 2010, our asset management subsidiaries had cash and cash equivalents and short-term investments of \$773 million and \$805 million, respectively.

## **Financing Activities**

Prudential Financial maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a Well-Known Seasoned Issuer under SEC rules, Prudential Financial's shelf registration statement provides for automatic effectiveness upon filing, pay-as-you-go fees and the ability to add securities by filing automatically effective amendments. Also, in accordance with these rules, the shelf registration statement has no stated issuance capacity.

As of March 31, 2011 and December 31, 2010, total short- and long-term debt of the Company on a consolidated basis was \$26.5 billion and \$25.6 billion, respectively, which as shown below, includes \$17.5 billion and \$17.6 billion, respectively, related to the parent company, Prudential Financial.

**Table of Contents****Prudential Financial Borrowings**

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

|                                                 | March<br>31,<br>2011 | December<br>31,<br>2010 |
|-------------------------------------------------|----------------------|-------------------------|
|                                                 | (in millions)        |                         |
| <b>Borrowings:</b>                              |                      |                         |
| General obligation short-term debt:             |                      |                         |
| Commercial paper                                | \$ 291               | \$ 283                  |
| Current portion of long-term debt               | 505                  | 486                     |
| <b>Total general obligation short-term debt</b> | <b>796</b>           | <b>769</b>              |
| General obligation long-term debt:              |                      |                         |
| Senior debt                                     | 12,576               | 12,654                  |
| Junior subordinated debt (hybrid securities)    | 1,519                | 1,519                   |
| Retail medium-term notes                        | 2,639                | 2,668                   |
| <b>Total general obligation long-term debt</b>  | <b>16,734</b>        | <b>16,841</b>           |
| <b>Total borrowings</b>                         | <b>\$ 17,530</b>     | <b>\$ 17,610</b>        |

The following table presents, as of March 31, 2011, Prudential Financial's contractual maturities of its general obligation long-term debt:

| Calendar Year       | Senior Debt      | Junior<br>Subordinated<br>Debt<br>(in millions) | Retail Medium-<br>term Notes |
|---------------------|------------------|-------------------------------------------------|------------------------------|
| 2012                | \$ 850           | \$ 0                                            | \$ 78                        |
| 2013                | 1,581            | 0                                               | 165                          |
| 2014                | 1,473            | 0                                               | 80                           |
| 2015                | 2,148            | 0                                               | 81                           |
| 2016 and thereafter | 6,524            | 1,519                                           | 2,235                        |
| <b>Total</b>        | <b>\$ 12,576</b> | <b>\$ 1,519</b>                                 | <b>\$ 2,639</b>              |

Prudential Financial maintains a Medium-Term Notes, Series D program under its shelf registration statement with an authorized issuance capacity of \$20 billion, of which as of March 31, 2011 approximately \$9.4 billion remained available. The weighted average interest rates on Prudential Financial's medium-term and senior notes, including the effect of interest rate hedging activity, were 5.33% and 5.23% for the three months ended March 31, 2011 and 2010, respectively, excluding the effect of debt issued to consolidated subsidiaries.

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Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of \$5.0 billion, of which as of March 31, 2011 approximately \$2.8 billion remained available. The retail medium-term notes program traditionally has served as a funding source for a product of our Retirement segment for which we earn investment spread; however, the program can also be used for general corporate purposes. Beginning in 2009, we began using a portion of the proceeds from outstanding retail medium-term notes for general corporate purposes and used funding agreements issued to the FHLBNY as a substitute funding source for the asset portfolio within the Retirement segment, as discussed in Prudential Financial Alternative Sources of Liquidity Federal Home Loan Bank of New York. The weighted average interest rates on Prudential Financial's retail medium-term notes were 5.76% and 5.69% for the three months ended March 31, 2011 and 2010, respectively, excluding the effect of debt issued to consolidated subsidiaries. A decline in demand by retail investors, and an increase in

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borrowing costs versus historical levels have resulted in a halt in new issuances under the retail medium-term notes program. However, if the capital markets continue to improve, we may resume new issuances under the program.

In 2008, Prudential Financial issued \$600 million of 8.875% fixed-to-floating rate junior subordinated notes to institutional investors and \$920 million of 9.0% fixed-rate junior subordinated notes to retail investors. Both issuances are considered hybrid capital securities, which receive enhanced equity treatment from the rating agencies. Both series of notes have a scheduled maturity of June 15, 2038 and a final maturity of June 15, 2068. See Note 14 to our Consolidated Financial Statements included in our 2010 Annual Report on Form 10-K for additional information concerning these junior subordinated notes.

***Consolidated Borrowings***

Current capital markets activities for the Company on a consolidated basis principally consist of unsecured short-term and long-term borrowings by Prudential Funding and Prudential Financial, unsecured third party bank borrowings, and asset-based or secured financing. As of March 31, 2011, we were in compliance with all debt covenants related to the borrowings in the table below.

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

|                                                    | <b>March<br/>31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|----------------------------------------------------|-------------------------------|----------------------------------|
|                                                    | (in millions)                 |                                  |
| <b>Borrowings:</b>                                 |                               |                                  |
| General obligation short-term debt(1)              | \$ 2,432                      | \$ 1,982                         |
| General obligation long-term debt:                 |                               |                                  |
| Senior debt                                        | 15,899                        | 15,517                           |
| Junior subordinated debt (hybrid securities)       | 1,519                         | 1,519                            |
| Surplus notes(2)(3)                                | 4,140                         | 4,142                            |
| Other(4)                                           | 725                           | 725                              |
| Total general obligation long-term debt            | 22,283                        | 21,903                           |
| <b>Total general obligations</b>                   | <b>24,715</b>                 | <b>23,885</b>                    |
| Limited and non-recourse borrowing:                |                               |                                  |
| Limited and non-recourse long-term debt(5)         | 1,750                         | 1,750                            |
| Total limited and non-recourse borrowing           | 1,750                         | 1,750                            |
| <b>Total borrowings(6)</b>                         | <b>26,465</b>                 | <b>25,635</b>                    |
| Total asset-based financing                        | 8,052                         | 8,057                            |
| <b>Total borrowings and asset-based financings</b> | <b>\$ 34,517</b>              | <b>\$ 33,692</b>                 |

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- (1) As of both March 31, 2011 and December 31, 2010, includes \$0.3 billion of short-term debt representing collateralized advances with the Federal Home Loan Bank of New York, which are discussed in more detail in Alternative Sources of Liquidity Federal Home Loan Bank of New York.
- (2) As of both March 31, 2011 and December 31, 2010, includes \$3.2 billion of floating rate surplus notes issued by subsidiaries of Prudential Insurance to fund regulatory reserves, as well as \$940 million and \$942 million, respectively, of fixed rate surplus notes issued by Prudential Insurance.
- (3) As of March 31, 2011, the \$4.1 billion of surplus notes outstanding is net of \$250 million of assets under set-off arrangements, representing a reduction in the amount of surplus notes included in long-term debt, relating to an arrangement where valid rights of off-set exist and it is the intent of both parties to settle on a net basis under legally enforceable arrangements.
- (4) Reflects collateralized advances with Federal Home Loan Bank of New York, which are discussed in more detail in Alternative Sources of Liquidity Federal Home Loan Bank of New York.
- (5) As of both March 31, 2011 and December 31, 2010, \$1.750 billion of limited and non-recourse long-term debt outstanding was attributable to the Closed Block Business.

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- (6) Does not include \$3.5 billion of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes as of both March 31, 2011 and December 31, 2010 or \$1.5 billion of collateralized funding agreements issued to the Federal Home Loan Bank of New York as of both March 31, 2011 and December 31, 2010. These notes and funding agreements are included in Policyholders' account balances. For additional information on the trust notes, see Funding Agreement Notes Issuance Program and for additional information on the Federal Home Loan Bank of New York funding agreements, see Alternative Sources of Liquidity Federal Home Loan Bank of New York.

Total general debt obligations increased by \$0.8 billion from December 31, 2010 to March 31, 2011, primarily reflecting the assumption of Star and Edison debt and an increase in working capital needs of our affiliates. In conjunction with the acquisition of Star and Edison, the Company assumed ¥47.8 billion of long-term debt, of which ¥32.5 billion and ¥5.3 billion is scheduled to mature in 2014 and 2026, respectively, and ¥10 billion of debt that does not have a stated maturity date. At March 31, 2011, the carrying value of this debt was \$489 million.

Our total borrowings consist of capital debt, investment-related debt, securities business-related debt and debt related to specified other businesses. Capital debt consists of borrowings that are 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, assets supporting reserve requirements under Regulation XXX and Guideline AXXX as described below, 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.

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

|                                             | <b>March<br/>31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|---------------------------------------------|-------------------------------|----------------------------------|
|                                             | <b>(in millions)</b>          |                                  |
| General obligations:                        |                               |                                  |
| Capital debt(1)                             | \$ 10,317                     | \$ 8,763                         |
| Investment-related                          | 8,908                         | 9,569                            |
| Securities business-related                 | 1,925                         | 2,230                            |
| Specified other businesses                  | 3,565                         | 3,323                            |
| Total general obligations                   | 24,715                        | 23,885                           |
| Limited and non-recourse debt(2)            | 1,750                         | 1,750                            |
| Total borrowings                            | \$ 26,465                     | \$ 25,635                        |
| Short-term debt                             | \$ 2,432                      | \$ 1,982                         |
| Long-term debt                              | 24,033                        | 23,653                           |
| Total borrowings                            | \$ 26,465                     | \$ 25,635                        |
| Borrowings of Financial Services Businesses | \$ 24,715                     | \$ 23,885                        |
| Borrowings of Closed Block Business         | 1,750                         | 1,750                            |
| Total borrowings                            | \$ 26,465                     | \$ 25,635                        |

- (1) Includes \$1,519 million of total outstanding junior subordinated debt. See Prudential Financial for additional information on our capital debt to total capital ratio, including the equity credit attributed to our outstanding junior subordinated debt.
- (2) As of both March 31, 2011, and December 31, 2010, \$1,750 million of limited and non-recourse debt outstanding was attributable to the Closed Block Business.

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The following table presents, as of March 31, 2011, the Company's contractual maturities of its long-term debt:

| <b>Calendar Year:</b> | <b>Long-term Debt<br/>(in millions)</b> |
|-----------------------|-----------------------------------------|
| 2012                  | \$ 944                                  |
| 2013                  | 1,825                                   |
| 2014                  | 2,023                                   |
| 2015                  | 3,169                                   |
| 2016 and thereafter   | 16,072                                  |
| <b>Total</b>          | <b>\$ 24,033</b>                        |

We may, from time to time, seek to redeem or repurchase our outstanding debt securities through individually negotiated transactions or otherwise. Any such repurchases will depend on prevailing market conditions, our liquidity position, contractual restrictions and other factors.

The states of domicile of our domestic life insurance subsidiaries have in place a regulation entitled "Valuation of Life Insurance Policies," commonly known as Regulation XXX, and a supporting Guideline entitled "The Application of the Valuation of Life Insurance Policies," commonly known as Guideline AXXX. The Regulation and supporting Guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is excessive, and we have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX and Guideline AXXX on our term and universal life insurance business, including actions that are described in more detail below.

In 2006, a subsidiary of Prudential Insurance entered into a surplus note purchase agreement with an unaffiliated financial institution that provides for the issuance of up to \$3.0 billion of ten-year floating rate surplus notes for the purpose of financing reserves required under Regulation XXX. Total outstanding notes under this facility were \$2.7 billion as of March 31, 2011. In 2007, another subsidiary of Prudential Insurance issued \$500 million of 45-year floating rate surplus notes to unaffiliated financial institutions for the purpose of financing reserves required under Guideline AXXX. In connection with each of these financing arrangements, Prudential Financial agreed that it or one of its affiliates will make capital contributions to the subsidiary issuer of the surplus notes as necessary to maintain the capital of such subsidiary at or above a prescribed minimum level. Also in each case, concurrent with the issuance of the surplus notes, Prudential Financial entered into arrangements, which are accounted for as derivative instruments, that require Prudential Financial to make certain payments in the event of deterioration in the value of the surplus notes. As of March 31, 2011, there were no collateral postings made under these derivative instruments.

In March 2011, a subsidiary of Prudential Insurance entered into an agreement that provides for the issuance by that subsidiary of up to \$500 million of ten-year fixed rate surplus notes for the purpose of financing reserves required under Regulation XXX. At March 31, 2011, \$250 million of surplus notes were outstanding under this facility. Under the agreement, the subsidiary issuer received a debt security, with a principal amount equal to the outstanding surplus notes, which is redeemable under certain circumstances, including upon the occurrence of specified stress events affecting the subsidiary issuer. Because valid rights of set-off exist, interest and principal payments on the surplus notes and on the debt security will be settled on a net basis, and the surplus notes will be reflected in the Company's total consolidated borrowings on a net basis. Also, Prudential Financial agreed that it or one of its affiliates will make capital contributions to the subsidiary issuer of the surplus notes to reimburse it for investment losses in excess of specified amounts.

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Surplus notes issued under these facilities are subordinated to policyholder obligations, and the payment of interest and principal on the surplus notes may only be made with prior regulatory approval. As we continue to underwrite term and universal life business, we expect to have additional borrowing needs to finance statutory reserves required under Regulation XXX and Guideline AXXX. Based on current expectations for sales and reserve growth, we believe that our remaining financing need in 2011 could be up to \$400 million. We continue to evaluate both internal and external solutions to fund this growth.

On September 18, 2009, Prudential Insurance issued in a private placement \$500 million of surplus notes due September 2019, with an interest rate of 5.36% per annum, that are exchangeable by the holders for shares of Prudential Financial Common Stock. See Note 14 to our Consolidated Financial Statements included in our 2010 Annual Report on Form 10-K for additional information regarding these exchangeable surplus notes.

### *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 related medium-term notes. The medium-term notes are sold in transactions not requiring registration under the Securities Act of 1933. The notes have fixed or floating interest rates and original maturities ranging from five to ten years. As of both March 31, 2011 and December 31, 2010, the outstanding aggregate principal amount of such notes totaled \$3.5 billion, out of a total authorized amount of up to \$15 billion. Our ability to issue under this program depends on market conditions. The aggregate maturities of these notes over the next 12 months are approximately \$555 million. We intend to repay the maturing notes through a combination of cash flows from asset maturities, asset sales, new liability origination and internal sources of funds.

### **Credit Facilities**

As of March 31, 2011, Prudential Financial, Prudential Insurance and Prudential Funding maintained an aggregate of \$4.108 billion of unsecured committed credit facilities. There were no outstanding borrowings under these credit facilities as of March 31, 2011 or as of the date of this filing. Each of the facilities is available to the applicable borrowers up to the aggregate committed credit and may be used for general corporate purposes, including as backup liquidity for our commercial paper programs. Any borrowings under the credit facilities would mature no later than the respective expiration dates of the facilities and would bear interest at the rates set forth in the applicable credit agreement.

This \$4.108 billion of committed credit facilities consists of three separate five-year credit facilities: Prudential Financial, Prudential Insurance and Prudential Funding are parties to a \$698 million five-year credit facility that expires in May 2012, which includes 21 financial institutions, and a \$2.16 billion credit facility, of which \$180 million expires in December 2011 and \$1.98 billion expires in December 2012, which includes 19 financial institutions. Prudential Financial is the sole borrower party to a separate \$1.25 billion five-year credit facility that expires in November 2015, which includes 21 financial institutions. Prudential Financial expects to borrow loans under the \$1.25 billion facility from time to time for general corporate purposes.

These credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type. Our ability to borrow under the facilities is conditioned on the continued satisfaction of customary conditions, including, for the facilities shared by Prudential Financial, Prudential Insurance and Prudential Funding, the 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 and, in the case of each of the facilities,

Prudential Financial's maintenance of a prescribed minimum level of consolidated net worth.

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For the credit facilities shared by Prudential Financial, Prudential Insurance and Prudential Funding, the minimum level of consolidated net worth of Prudential Financial is \$12.5 billion which for this purpose is calculated as U.S. GAAP equity, excluding net unrealized gains and losses on investments. For the credit facility on which Prudential Financial is the sole borrower party, the minimum level of consolidated net worth of Prudential Financial is \$19.0 billion, which for this purpose is calculated as U.S. GAAP equity, excluding accumulated other comprehensive income (loss).

As of March 31, 2011, Prudential Insurance's total adjusted capital and Prudential Financial's consolidated net worth (as defined in the applicable credit agreements) exceeded the minimum amounts required to borrow under the facilities. Our ability to borrow under the facilities is not contingent on our credit ratings nor subject to material adverse change clauses.

We also use uncommitted lines of credit from financial institutions.

## **Ratings**

Financial strength ratings (which are sometimes referred to as claims-paying ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors, distributors or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

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Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of the date of this filing:

|                                                                  | <b>A.M.<br/>Best(1)</b> | <b>S&amp;P(2)</b> | <b>Moody's(3)</b> | <b>Fitch(4)</b> |
|------------------------------------------------------------------|-------------------------|-------------------|-------------------|-----------------|
| <b>Financial Strength Ratings:</b>                               |                         |                   |                   |                 |
| The Prudential Insurance Company of America                      | A+                      | AA-               | A2                | A+              |
| PRUCO Life Insurance Company                                     | A+                      | AA-               | A2                | A+              |
| PRUCO Life Insurance Company of New Jersey                       | A+                      | AA-               | NR*               | A+              |
| Prudential Annuities Life Assurance Corporation                  | A+                      | AA-               | NR                | A+              |
| Prudential Retirement Insurance and Annuity Company              | A+                      | AA-               | A2                | A+              |
| The Prudential Life Insurance Company Ltd. (Prudential of Japan) | NR                      | AA-               | NR                | NR              |
| Gibraltar Life Insurance Company, Ltd.                           | NR                      | AA-               | A2                | NR              |
| <b>Credit Ratings:</b>                                           |                         |                   |                   |                 |
| Prudential Financial, Inc.:                                      |                         |                   |                   |                 |
| Short-term borrowings                                            | AMB-1                   | A-1               | P-2               | F2              |
| Long-term senior debt(5)                                         | a-                      | A                 | Baa2              | BBB+            |
| Junior subordinated long-term debt                               | bbb                     | BBB+              | Baa3              | BBB-            |
| The Prudential Insurance Company of America:                     |                         |                   |                   |                 |
| Capital and surplus notes                                        | a                       | A                 | Baa1              | A-              |
| Prudential Funding, LLC:                                         |                         |                   |                   |                 |
| Short-term debt                                                  | AMB-1                   | A-1+              | P-2               | F1              |
| Long-term senior debt                                            | a+                      | AA-               | A3                | A               |
| PRICOA Global Funding I:                                         |                         |                   |                   |                 |
| Long-term senior debt                                            | aa-                     | AA-               | A2                | A+              |

\* NR indicates not rated.

- (1) A.M. Best Company, which we refer to as A.M. Best, financial strength ratings for insurance companies currently range from A++ (superior) to F (in liquidation). A.M. Best's ratings reflect its opinion of an insurance company's financial strength, operating performance and ability to meet its obligations to policyholders. An A.M. Best long-term credit rating is an opinion of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. A.M. Best long-term credit ratings range from aaa (exceptional) to d (in default), with ratings from aaa to bbb considered as investment grade. An A.M. Best short-term credit rating reflects an opinion of the issuer's fundamental credit quality. Ratings range from AMB-1+, which represents an exceptional ability to repay short-term debt obligations, to AMB-4, which correlates with a speculative (bb) long-term rating.
- (2) Standard & Poor's Rating Services, which we refer to as S&P, financial strength ratings currently range from AAA (extremely strong) to R (regulatory supervision). These ratings reflect S&P's opinion of an operating insurance company's financial capacity to meet the obligations of its insurance policies in accordance with their terms. A + or - indicates relative strength within a category. An S&P credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. S&P's long-term issue credit ratings range from AAA (extremely strong) to D (default). S&P short-term ratings range from A-1 (highest category) to D (default).
- (3) Moody's Investors Service, Inc., which we refer to as Moody's, insurance financial strength ratings currently range from Aaa (exceptional) to C (lowest). Moody's insurance ratings reflect the ability of insurance companies to repay punctually senior policyholder claims and obligations. Numeric modifiers are used to refer to the ranking within the group with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody's credit ratings currently range from Aaa (highest) to C (default). Moody's credit ratings grade debt according to its investment quality. Moody's considers A1, A2 and A3 rated debt to be upper medium grade obligations, subject to low credit risk. Moody's short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Prime ratings range from Prime-1 (P-1), which represents a superior ability for repayment of senior short-term debt obligations, to Prime-3 (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated Not Prime do not fall within any of the Prime rating categories.
- (4) Fitch Ratings Ltd., which we refer to as Fitch, financial strength ratings currently range from AAA (exceptionally strong) to D (distressed). Fitch's ratings reflect its assessment of the likelihood of timely payment of policyholder and contractholder obligations. Fitch long-term credit ratings currently range from AAA (highest credit quality), which denotes exceptionally strong capacity for timely payment of financial commitments, to D (default). Investment grade ratings range between AAA and BBB. Short-term ratings range from F1 (highest credit quality) to C (high default risk). Within long-term and short-term ratings, a + or a - may be appended to a rating to denote relative status within major rating categories.
- (5) Includes the retail medium-term notes program.

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The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, we cannot assure you that we will maintain our current ratings in the future.

Requirements to post collateral or make other payments as a result of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels as of March 31, 2011 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated additional collateral posting requirements or payments under such agreements of approximately \$153 million as of March 31, 2011. The amount of collateral required to be posted for derivative agreements is also dependent on the fair value of the derivative positions as of the balance sheet date. For additional information regarding the potential impacts of a ratings downgrade on our derivative agreements see Note 14 to the Unaudited Interim Consolidated Financial Statements. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately \$1.6 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate, that we estimate would result in annual cash outflows of approximately \$16 million, or collateral posting in the form of cash or securities to be held in a trust. We believe that the posting of such collateral would not be a material liquidity event for Prudential Insurance.

Rating agencies use an outlook statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12-18 months the rating agency expects ratings to remain unchanged among companies in the sector. Currently, A.M. Best, S&P, Moody's and Fitch all have the U.S. life insurance industry on stable outlook. For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. Except as noted below, A.M. Best, S&P, Moody's and Fitch currently have all of the Company's ratings on stable outlook.

In view of the difficulties experienced recently by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

The following is a summary of the significant changes in our ratings and rating outlooks that have occurred from the beginning of 2011 through the date of this filing.

On April 27, 2011, S&P assigned a negative outlook to the ratings of The Prudential Life Insurance Company Ltd. and Gibraltar Life Insurance Company, Ltd. as part of its decision to put the sovereign debt ratings of Japan on negative outlook.

## **Off-Balance Sheet Arrangements**

## **Guarantees and Other Contingencies**

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In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to whom we may be contingently required to make payments now or in the future. See **Commitments and Guarantees** within Note 15 to the Unaudited Interim Consolidated Financial Statements for additional information.

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### **Other Contingent Commitments**

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See **Commitments and Guarantees** within Note 15 to the Unaudited Interim Consolidated Financial Statements for additional information regarding these commitments. For further discussion of certain of these commitments that relate to our separate accounts, also see **Liquidity and Capital Resources of Subsidiaries** **Asset Management Subsidiaries**.

### **Other Off-Balance Sheet Arrangements**

We do not have retained assets or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

## **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, equity prices or commodity prices. To varying degrees, the investment and trading activities supporting all of our products and services generate exposure to market risk. The market risk incurred and our strategies for managing this risk vary by product. There have been no material changes in our market risk exposures from December 31, 2010, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2010, Item 7A, **Quantitative and Qualitative Disclosures about Market Risk**, filed with the Securities and Exchange Commission. Although the acquisition of the Star and Edison Businesses during the first quarter of 2011 increased the size of our overall portfolio, it did not materially change the overall risk profile of our portfolio. See Item 1A, **Risk Factors** included in the Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of how the difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

## **ITEM 4. CONTROLS AND PROCEDURES**

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of March 31, 2011. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2011, 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, 2011, 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, including in both cases businesses that have either been divested or placed in wind-down status. 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.

In April 2011, a preliminary settlement, subject to court approval, was reached in *Bauer v. Prudential Financial, et al.*

In April 2011, *Schultz v. Aviall, Inc. Long Term Disability Plan*, was dismissed and *Koehn v. Fireman's Fund Insurance Company Long Term Disability Plan* settled in principle. The Company had indemnified the defendant plans.

In March 2011, the four purported nationwide class actions challenging the use of retained assets accounts to pay death benefits to beneficiaries of a group life policy insuring members of the armed forces and veterans, were consolidated as *In re Prudential Insurance Company of America SGLI/VGLI Contract Litigation* in the United States District Court for the Western District of Massachusetts. In March 2011, the Company's motion to dismiss was denied. In April 2011, the Company withdrew its motion to dismiss the complaint in *Huffman v. The Prudential Insurance Company*, a nationwide class action alleging that the use of retained asset accounts to settle death claims in employee welfare plans violates ERISA. In March 2011, an amended complaint was filed in the Illinois state class action challenging the use of retained asset accounts to pay death benefits from individual policies under Illinois law adding Pruco Life Insurance Company as a defendant.

In March and April 2011, 188 of the 235 plaintiffs settled and their claims were dismissed in *Lederman v. Prudential Financial, Inc.* The remaining plaintiffs will participate in a court-ordered proceeding in June 2011 before any further actions may be taken. Amounts paid in settlement were within existing reserves for this matter.

In March 2011, a settlement in principle was reached in *Prudential Global Funding LLC v. Lehman Brothers Holdings Inc.* Under the terms of the settlement, the Company will make a payment in return for Lehman's release of the demand for the return of collateral. In addition, the Company will pursue certain allowed claims in the bankruptcy proceedings.

In March 2011, in *Prudential Retirement Insurance & Annuity Co. v. State Street Global Advisors*, the district court denied State Street's motion for summary judgment and denied in part and granted in part PRIAC's motion for partial summary judgment on State Street's counterclaims.

In February 2011, a fifth amended complaint was filed in the United States District Court for the District of New Jersey in *Clark v. Prudential Insurance Company*. The complaint brought on behalf of a purported class of California, Illinois, Ohio and Texas residents who purchased individual health insurance policies alleges that Prudential failed to disclose that it had ceased selling this type of policy in 1981 and that, as a result, premiums would increase significantly. The complaint alleges claims of fraudulent misrepresentation and omission, breach of the duty of

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good faith and fair dealing, and California's Unfair Competition Law and seeks compensatory and punitive damages. The matter was originally filed in 2008 and certain of the claims in the first four complaints were dismissed.

Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that our results of operations or cash flow in a particular

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

The foregoing discussion is limited to recent material developments concerning our legal and regulatory proceedings. See Note 15 to the Unaudited Interim Consolidated Financial Statements included herein for additional discussion of our litigation and regulatory matters, including those referred to above.

**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, 2010. 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 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, 2011, of its Common Stock:

| Period                                        | Total Number of<br>Shares Purchased(1) | Average<br>Price Paid<br>per<br>Share | Total Number of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program(1) | Approximate Dollar Value of<br>Shares that May<br>Yet be<br>Purchased under the Program |
|-----------------------------------------------|----------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| January 1, 2011 through<br>January 31, 2011   | 19,522                                 | \$ 61.91                              |                                                                                          |                                                                                         |
| February 1, 2011 through<br>February 28, 2011 | 263,048                                | \$ 64.80                              |                                                                                          |                                                                                         |
| March 1, 2011 through<br>March 31, 2011       | 2,176                                  | \$ 63.85                              |                                                                                          |                                                                                         |
| Total                                         | 284,746                                | \$ 64.59                              |                                                                                          | \$                                                                                      |

- (1) Reflects shares of Common Stock withheld from participants for income tax withholding purposes whose shares of restricted stock and restricted stock units vested during the period. Restricted stock and restricted stock units 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 (as subsequently amended and restated).



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### **Item 6. Exhibits**

- 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.

|         |      |                                                    |
|---------|------|----------------------------------------------------|
| 101.INS | XBRL | Instance Document.                                 |
| 101.SCH | XBRL | Taxonomy Extension Schema Document.                |
| 101.CAL | XBRL | Taxonomy Extension Calculation Linkbase Document.  |
| 101.LAB | XBRL | Taxonomy Extension Label Linkbase Document.        |
| 101.PRE | XBRL | Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL | Taxonomy Extension Definition Linkbase Document.   |

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to the Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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, 21st Floor

Newark, New Jersey 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**  
                              **Executive Vice President and Chief Financial Officer**  
  
                              **(Authorized signatory and principal financial officer)**

Date: May 6, 2011

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**EXHIBIT INDEX**

|      |                                                           |
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