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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

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

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FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, includes, plans, assumes, estimates, projects, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets, particularly in light of severe economic conditions and the severe stress experienced by the global financial markets since the second half of 2007; (2) the availability and cost of external financing for our operations, which has been affected by the stress experienced by the global financial markets; (3) interest rate fluctuations; (4) reestimates of our reserves for future policy benefits and claims; (5) differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (6) changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill; (7) changes in our claims-paying or credit ratings; (8) investment losses, defaults and counterparty non-performance; (9) competition in our product lines and for personnel; (10) changes in tax law; (11) economic, political, currency and other risks relating to our international operations; (12) fluctuations in foreign currency exchange rates and foreign securities markets; (13) regulatory or legislative changes, including government actions in response to the stress experienced by the global financial markets; (14) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (15) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (16) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (17) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions; (18) changes in statutory or U.S. GAAP accounting principles, practices or policies; (19) changes in assumptions for retirement expense; (20) Prudential Financial, Inc. s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (21) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. As noted above, the period since the second half of 2007 has been characterized by extreme adverse market and economic conditions. The foregoing risks are even more pronounced in these unprecedented market and economic conditions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 for discussion of certain risks relating to our businesses and investment in our securities.

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

PART I FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statement of Equity

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

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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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 and Investments. The Company s real estate and relocation services business as well as businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested, including the Company s investment in the retail securities brokerage joint venture Wachovia Securities Financial Holdings, LLC (Wachovia Securities), are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 6), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholders dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company ceased offering these participating products.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company s consolidated variable interest entities. The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Intercompany balances and transactions have been eliminated. The Company has evaluated subsequent events through November 6, 2009, the date these financial statements were issued as part of this Quarterly Report on Form 10-Q.

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

Use of Estimates

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

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; measurement of goodwill and any related impairment; valuation of business acquired and its amortization; valuation of investments including derivatives and the recognition of other-than-temporary

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Reclassifications

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

2. ACCOUNTING POLICIES AND PRONOUNCEMENTS

Share-Based Payments

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

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

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

Investments in Debt and Equity Securities

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

Realized investment gains (losses) are computed using the specific identification method with the exception of some of the Company s International Insurance businesses portfolios, where the average cost method is used. Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for net other-than-temporary impairments recognized in earnings. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, provisions for losses

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

Goodwill

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

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

Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

Income Taxes

The Company s liability for income taxes includes the liability for unrecognized tax benefits and interest and penalties which relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (tax attributes), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the

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

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

The dividends received deduction (DRD) reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company s effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2008, current year results, and was adjusted to take into account the current year s equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company s taxable income before the DRD.

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

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

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

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

Accounting Pronouncements Adopted

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of Yamato Life

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

Acquisition of Hyundai Investment and Securities Co., Ltd.

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

Additional Investment in UBI Pramerica

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

Discontinued Operations

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Trading Account Assets Supporting Insurance Liabilities

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Other Trading Account Assets

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Investment Income

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

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

Realized Investment Gains (Losses), Net

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Unrealized Investment Gains (Losses)

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Duration of Gross Unrealized Loss Positions for Fixed Maturities

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Duration of Gross Unrealized Loss Positions for Equity Securities

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

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

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

At September 30, 2009, $75 million of the gross unrealized losses represented declines of greater than 20%, $20 million of which had been in that position for less than six months. At December 31, 2008, $1,227 million of the gross unrealized losses represented declines of greater than 20%, $1,086 million of which had been in that position for less than six months. Securities with fair value of $737 million and $263 million and gross unrealized losses of $108 million and $63 million that have been in a continuous unrealized loss position for twelve months or more as of September 30, 2009 and December 31, 2008, respectively, represent perpetual preferred securities, which have characteristics of both debt and equity securities and to which an impairment model similar to the Company s fixed maturities is applied. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these securities was not warranted at September 30, 2009 or December 31, 2008.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

5. VARIABLE INTEREST ENTITIES

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

Consolidated Variable Interest Entities for which the Company is the Sponsor

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Unconsolidated Variable Interest Entities for which the Company is the Sponsor

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

6. CLOSED BLOCK

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

Information regarding the policyholder dividend obligation is as follows:

Nine Months Ended September 30,

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

7. EQUITY

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Comprehensive Income

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

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

(1) Includes cash flow hedges of $(36) million and $71 million for the three months ended September 30, 2009 and 2008, respectively and $(66) million and $18 million for the nine months ended September 30, 2009 and 2008, respectively.

(2) Amounts are net of tax expense (benefit) of $2,578 million and $(967) million for the three months ended September 30, 2009 and 2008, respectively and $4,070 million and $(2,123) million for the nine months ended September 30, 2009 and 2008, respectively.

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

(1) Includes cash flow hedges of $(213) million and $(147) million as of September 30, 2009 and December 31, 2008, respectively and $(155) million and $(173) million as of September 30, 2008 and December 31, 2007, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).
(2) See Note 2 for additional information on the adoption of new guidance for other-than-temporary impairments of debt securities.

8. EARNINGS PER SHARE

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Common Stock

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

For the three months ended September 30, 2009, 10.4 million options, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $72.65 per share, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive. For the three months ended September 30, 2008, 17.9 million options and 4.2 million shares

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

Class B Stock

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

9. SHORT-TERM AND LONG-TERM DEBT

Commercial Paper

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

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

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

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

Convertible Senior Notes

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Medium-term Notes

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

Federal Home Loan Bank of New York

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Exchangeable Surplus Notes

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

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

TALF Borrowings

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

10. EMPLOYEE BENEFIT PLANS

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

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

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

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

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

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

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

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11. SEGMENT INFORMATION

Segments

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

Adjusted Operating Income

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

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

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

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

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Individual Annuities	$ 166	$ (307)	$ 615	$ (38)
Retirement	119	133	377	398
Asset Management	29	(8)	61	301
Total U.S. Retirement Solutions and Investment Management Division	314	(182)	1,053	661
Individual Life	243	238	421	437
Group Insurance	64	101	262	271
Total U.S. Individual Life and Group Insurance Division	307	339	683	708
International Insurance	500	460	1,390	1,326
International Investments	13	37	39	88